Home Economics Research Report No. 21

Helping Families Manage Their

FINANCES

Agricultural Research Service
UNITED STATES DEPARTMENT OF AGRICULTURE

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Consumer and Food Economics Research Division
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This publication was prepared in 1962 by Alice Hanson Jones, then Consultant to the Consumer and Food Economics Research Division. It has been revised and updated by Lucile F. Mork under the general supervision of Jean L. Pennock.

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Helping Families
MANAGE THEIR FINANCES

By *Consumer and Food Economics Research Division, Agricultural Research Service*

How can we stretch our income to meet the bills? How can we eat well at low cost? How much should go for housing or for buying a car? How much can we afford to buy on installments? How can we plan for educating our children? How should we prepare for retirement? Day after day, such questions are asked of home economists and others who are counseling families.

This publication does not provide the answers to all these questions. It has been prepared as a guide for extension workers, teachers, social welfare personnel, and others concerned with helping families use their incomes and other resources wisely. It describes the steps families may follow and some of the things they may consider in planning their spending.

Section I.—Family Financial Management

Many families want help in managing their finances. Their reasons for seeking help cover a wide range. For some families the difficulty may involve overcommitment on installment debt.

Reduced income can cause difficulty. The principal breadwinner may face unemployment; the wife may have to give up her job; other secondary earners may leave the family or lose their sources of earnings. Other incomes may be sharply affected by death or incapacity of the breadwinner, or by retirement. Increasing prices may have the same effect as a lowering of income on the family's need to manage.

Other families are dissatisfied at seeing all the income, even a large one, slip away without having made progress toward such longtime goals as home ownership, provision for college education, for an independent old age.

The feeling of not knowing what expenses to expect often comes with a change in family composition or location. Newlyweds, for the first time facing responsibility for a household, frequently feel the need of guidance. The arrival of a baby, bringing an elderly parent into the household, or moving to a community with different living conditions may also lead a family to seek information or advice.

Conflicting interests and goals or the desires of one or two family members may bring the family to seek an impartial arbiter or to examine how other families manage. This need may be felt when one spouse stresses future security and the other current spending, or when a teenage boy presses for his own car, or a teenage girl wants clothing and a standard of housing the family cannot afford.

Managing a household is very different from operating a business.

The business manager, who combines materials and labor to make a product he sells, can measure his success in the profit or loss the business shows. The family's success in managing its resources is measured quite differently.

Financial progress is measured by the amount of change in the family's net worth—that is, the total of its assets minus any debts—from one date to another. However, other signs of successful family money management are equally, if not more, important; such as well fed, healthy,

well educated, responsible members; and an attractive home and worthwhile family activities.

Some families seem to get much more than others out of the same amount of money and other resources. They have proved better managers in reaching their family goals.

Family management can be thought of as the crucial narrow channel of decision through which all the family resources must pass on their way to use in attaining goals of family living. The goals vary widely from family to family, according to their judgment of what is a good life and the urgencies of their various needs.

Family Resources

Family resources include its money and credit, the material goods it has on hand or has access to, the community facilities available to it, as well as the time and energy, abilities and skills, interests and knowledge of the family members themselves.

Until such time as a family commits its resources to a particular use, they are available for anything the family may propose.

The resources are potentials. Money and materials, for example, and time, too, can be spent in an endless variety of ways, with widely different results. But when the resources have been spent for concrete things or accomplishments, they can seldom be changed. Time spent cannot be recovered. Usually, the same is true of money and other resources. Hence, it is crucially important that wise management decisions turn the family's resources into specific things or achievements that contribute toward the attainment of its desired goals.

Some families have more of some kinds of resources than of others. One family may have little money but ample time, abilities, and skills. Another may have more money but little time. The problem of family financial management, therefore, is to make the best expenditure of the resources that the family has or can get (money and other things) to take care of as many needs as possible, working down from the most to the least urgent. It is a problem of how to meet the family's wishes in the most economical and satisfactory way.

Haphazard or Impulsive Decisions

Many families make their management choices hastily, with no deliberate thought as to their goals. Some even pride themselves on their happy-go-lucky spending. They may respond impulsively to sales pressure or the allure of a television commercial. So long as there is cash in the purse, or enough for a downpayment, or only a signature is asked, they buy on the spur of the moment. Too late they discover too many bills are coming due at one time, or there is no money to meet an emergency or to cover an urgent need.

Planned Spending

Many people think budgeting is a strange process, too complicated for them. They could readily be shown that they have the basic outlines of a spending plan already in mind, and that they need only to fill in the gaps to have a complete budget on paper.

Those who do plan carefully weigh and consider various possibilities in the light of their goals. They know where it pays to use their own talents and the materials on hand. They make each purchase count. Those who plan their spending over a period of time, and critically appraise how their dollars shall be divided among different kinds of goods, services, and savings, are likely to succeed in reaching their chosen goals.

Many families have never considered the cost of their way of living as a spending plan made up of parts which they can examine, discuss, and evaluate. Yet probably most of them plan at least part of their expenditures. Many make and remake partial plans; others plan over long periods of time. They plan to paint the house, to trade in the car, to wear a winter coat for another season, or to increase life insurance. Such partial planning, however, is in their heads and not on paper.

The widespread increase in the use of credit in recent years has been blamed as a cause of families losing interest in budgeting. Where consumers once had to save up hard cash to make a large purchase, they now find merchants and dealers vying to offer a bewildering array of so-called "budget" accounts or credit plans. Installment and charge arrangements seem to take over.

That many families are still interested in budgeting, however, is shown by their requests for help in working out their spending plans. In many of the spending plans they will have to make provision for installment payments on purchases and loans, and for revolving credit accounts. Many families need help in planning, just because they have not realized the true costs of credit.

A reasonable balance between the expenses to which the family is committed—installment payments, home purchase payments, and insurance programs—and those that fluctuate from day to day and week to week—for example, food and recreation—can be more readily struck when all are seen as parts of a total spending pattern. Also, the parts can be judged as to which is most essential. If some are too high and others too low, they

can and should be revised by the family when it critically evaluates its plan.

People will look with favor on planning when they learn that it helps them to get what they want. Unfortunately some believe that the main purpose of a budget is to save more, and that this means cutting down on spending for "fun and frolic." Actually, a spending plan is a means of cutting out inefficient spending, so that more money is left for things that are wanted, whether these are good food, a sizable bank account, or "good times." Each family must decide which things are first, in the light of its goals, and which things are less important. Savings may or may not be at the top of the list, depending on the family's own choices.

Some people shy away from budgeting as a tiresome matter of pinching pennies and neatly recording every one of them. Some think it means slavish bowing to rigid control with little freedom of choice. The fact is that budgeting is a helpful tool to ensure getting what the family wants most, whatever that may be. Developing and following a spending plan can be an adventure and a challenge in making the family dollars respond to the wishes of the family.

Advantages of a written plan.—The advantages of putting the spending plan on paper are many. The plan can be made complete, estimates of probable expenditure more exact, and times of peak expense better anticipated. Less important wants will be less likely to crowd out more desired wants, and criticisms and revisions can be made more readily.

Several family members can participate more easily in planning when the plan is written down. Decisions remain on record instead of being left to the hazards of memory.

The written plan, kept in a handy place, may stiffen resistance to door-to-door and other sales pressures. Frequent reference to it will help check expenses of the "nibbler" type—those that have to be watched. Following it will help the family be ready when it meets expenses of the "gobbler" type—those that take large amounts at certain times—and of the "smasher" type—the large unexpected ones.

What a spending plan will not do.—A spending plan, however, is not a magic solver of all of a family's financial problems. It will not increase the family's income or its regularity, nor eliminate all emergency needs for funds. Neither will it tell the family what things are good.

It will not necessarily promote savings. It is an aid to those who "want to save but can't" only as preplanning tends to place saving ahead of things less desired.

A plan will not automatically bring needed confidence and mutual trust between husband and wife and other family members in matters contributing to, controlling, and spending the family income.

Important byproducts of a spending plan.—If a family does make and does try to follow a spending plan, however, certain byproducts are likely to result. Some of these alone may be more than worth any trouble and effort involved.

As various family members' needs and responsibilities are compared, their interest is aroused and their cooperation more readily obtained. Understanding of necessary sacrifices or substitutions is increased. Decision as to the most essential items leads to taking thought, and perhaps to a search for information.

An appraisal of income in relation to needs may result in one or several members taking steps to add to the family purse. The family may decide to appraise its net worth from time to time, and this may lead to a determination to see the family savings grow.

The undertaking may develop into a project that increases the responsibility and emotional maturity of family members. A careful look at family goals promotes an evaluation by the family of its standards of consumption, which lie at the base of its choices for spending. A family will feel a great difference between going without something it wants because it has not enough income to buy it and going without the same thing because it finds it not worthwhile for its objectives.

Section II.—Choosing Goals

The family's first step in drawing up a spending plan is to set its sights, determine its goals. The members must decide what their needs and wants are, and which are of greater importance. In judging relative importance they may want to follow a one-, two-, three-star system, as suggested on page 21, or they may want to make several lists; or to put each item on a card and

sort the cards until an order of importance is settled on.

Determining goals means thinking through not only monthly or yearly requirements, but the family's big aims for the next few years and even the more distant future.

Spelling out goals requires the cooperation of all family members mature enough to take part in planning, so that everyone will be satisfied with the results. Husbands and wives, especially when newly married, may have quite different ideas. A discussion of goals will help them to achieve a suitable balance and to decide upon objectives agreeable to both. As the children reach sufficient maturity they should be allowed to have a voice in this first planning stage. Family friction may thus be avoided.

Naturally no two families will ever choose exactly the same goals, because no two families have the same wants and desires. As a consequence, no two families ever have really identical spending patterns. This is one reason why no set "budget," allowing a certain portion of income for this item and a certain one for that, can be expected to fit all families. Instead, a spending plan is custom-made to fit the particular family and help it achieve its particular goals. One family may want above all else to have a large family, another to own its business or farm, or just be out of debt, while still another family may place greater emphasis on the social aspects of living and prefer to work toward improving the community in which it lives.

Factors That Make Goals Individual

The principal factors that affect a family's needs and desires and its ability to meet them are given here. They make each family's goals and hence its requirements individual.

Resources.—Amount and regularity of income and other resources available for spending. Kinds of goods and services the family can provide for itself or receive free.

Residence.—Where the family lives—whether in a cold or warm climate; whether in a small town, suburb or large central city, in open country or on a farm; whether in a house, apartment, room or rooms; whether owner or renter; whether alone or doubled up with another family.

Size and stage of family life cycle.—Number and age of persons in the family—young newlyweds or elderly retired couple; single adult living alone or sharing living expenses; family of one or two parents or substitute parents with young child or children; parents with older children at home; and parents with older children away from home.

Occupation.—Kinds of work performed by head of family, homemaker, and other members of the family for pay—away from home or at home.

Health.—State of health of family members, especially of the breadwinner and of the homemaker.

Education.—Amount and kind of education received, being received, or anticipated by the breadwinner, homemaker, and other family members.

Interests.—Talents, hobbies, ambitions, preferences, value judgments. For example, some families and their friends set great store on outdoor life and sports, others on music, travel, reading, sociability, and so on.

Experience.—Previous experience of the family and its members—the things it is accustomed to doing and its habits of planning (or lack of planning) in spending.

Community facilities.—Kinds of facilities in the community for transportation, shopping, education, worship, cultural activities, recreation, and health care.

Each family then must think out, according to its standards of a good life, what it wants and how urgently it wants them.

Goals at Different Periods in the Family Life Cycle

Naturally, as the family goes through the various stages of the family life cycle, its goals will change. American families also typically aim at an increasingly higher standard of living as the years pass. With new products offered, new ways of doing things discovered, and higher levels of productivity in industry and agriculture, families' standards of their needs tend to change.

Goals need to be reviewed from time to time, especially at each major change in the family life cycle or major change in circumstances.

The following stages are characteristic.

The young person.—The chief goal for the young person may be development. His investment may be chiefly in himself, for education and training in skills for a future vocation. If he is still supported by his family, his chief money needs are for clothing, recreation, and personal care. If he is considering marriage, he may be interested in saving to establish a home.

The beginning family.—The newly married husband and wife need to discuss and work out agreement on their aims in many fields of spending. They are faced with evaluating the many needs of establishing a home and a way of life. They may agree that the wife should continue working. Many young families strive to set aside some of their income for future needs, knowing that demands will be greater as the family grows.

The growing family.—As children arrive, family needs grow and longrun goals take on new importance. There is more need for reserve funds to meet anticipated and emergency expenses. The need for insurance on the life of the breadwinner is greatest while the children are small. Money expenses increase until education of the children is completed. Food and clothing needs grow as the children grow. Expense for acquiring a home and purchase of various durable goods is likely to be high and may be the chief kind of investment. Money savings may be difficult during this period, but a saving program toward long-term goals may be an important aim.

The contracting family.—As the education of the children is completed and they leave home to marry or go on their own, spending requirements and savings objectives change greatly. The need for insurance on the life of the breadwinner is greatly reduced. The kinds of emergency needs for funds are likely to change. Planning for retirement of older families comes to the fore. This plan would include finding out what the social security benefits may be expected to amount to; completing contributions to pension funds, income insurance policies, purchase of income-bearing property; making property transfer arrangements, and so forth. The older family is likely to have its home and equipment paid for. A younger family, where the parents may be still in their late thirties or early forties, may have devoted such a large portion of income to children that it may have remaining a substantial mortgage on the home or similar debts. When the children have gone, the parents may allow themselves somewhat more for clothing and recreation. The parents may have more leisure to pursue goals of personal development and expression.

The retired couple.—Social security, pensions, and returns from savings and insurance may provide for the expense of the retired couple. They are concerned with due caution that their reserves will last for the expected lifetimes of both. They may hope to leave an inheritance for the children or other heirs, though good health and a good education are excellent heritages. They may have property transfer arrangements to complete. Expenses for food, clothing, medical care, and recreation are important. With careful financial planning in preceding stages, the later years may be a period of mature enjoyment of the finer things of life.

Single consumers not living in family groups.—These persons have different spending and savings objectives than married people, because they usually do not have the same financial responsibilities and living pattern. They, as well as family groups, need to live effectively in the present as well as in the future. Their spending requirements will depend in part on whether they live alone or share living quarters and expenses with others, and on whether they are students, employed, or retired. They, too, need to evaluate their objectives at various periods in their lives, as changes occur in their circumstances and values.

Short-Term Versus Long-Term Goals

Some people may find it a help to think separately of goals (and the requirements needed to attain them) for this month, this year, the next 5 years, the next 20 years. The most effective planning order, however, is to begin at the future and work back to the present. In this way provision for a family's long-term goals is built into its more immediate plans and is not lost in the day-to-day demands. The annual spending plan should allow for both present and future spending. If there are leftover or past-due bills, the plan must also cover paying for past spending.

Families with very low incomes may not be able to do much more than take care of their immediate needs and bills. Such a family's list of requirements might start with the most immediate and urgent, such as buying the week's food supply or paying the past-due bills. Still, for them the long-term goal of getting the children through high school may be as important and take as careful planning as providing a college education does for families with more income. Families with very low incomes may need special help in spotting leakages, or they may need public assistance.

Families who have any excess over a bare minimum, however, will usually find it better to start their planning by looking at their long-term goals. Steak in this week's food supply can all too easily crowd out a more distant goal, unless that goal is seen clearly and present provision made for it.

Whether a family begins by listing its long-term goals first or last is less important than that it shall think them through sometime, separately from its current needs, before its spending plan takes definite shape.

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Objectives for the Next 20 Years

A family's longrun financial aims, even more than its immediate ones, are governed by anticipated changes. The family knows in what stage of the life cycle it will probably be 20 years hence. The members have ideas as to the sources of their probable future income, whether from employment farther up the ladder; from business, farm or property income; or from retirement allowances or other reserves. They cannot know for sure but should allow for possible future price trends. They may expect that their own standards of needs may tend to rise as do those of many other American families. A home free of debt, assured children's education, and a comfortable retirement are likely to be major longrun aims for a family of moderate income.

Objectives for the Next 5 Years

In looking ahead over a 5-year period, the family will picture the way its needs will change as it moves on in the life cycle and as its standards change.

It will also take into account the members' prospects for employment or other sources of family income. It will judge whether it believes prices are likely to go up, remain the same, or go down.

Some members may decide to change occupations. For example, a farmer on a noneconomic farm may decide to shift out of farming entirely, or to supplement his farm income by permanent outside work.

Such factors will influence a family's need for reserve funds for emergencies, its insurance and saving programs, and the kinds of commitments it wants to undertake.

Some of the financial objectives a moderate-income family might wish to set for itself over a 5-year period could include the following:

Making a downpayment, or substantially reducing the mortgage, or clearing the mortgage on home, farm, or other business.

Making certain home repairs, or additions, like painting the house or adding a bathroom.

Purchasing or replacing a car.

Purchasing or replacing major equipment or furnishings, such as new carpeting, or clothes washer and dryer.

Taking out, renewing or changing insurance on the life of the breadwinner, the home and its contents, the car or other major risks.

Adding to or completing a fund for college education.

Adding to or completing a fund for retirement.

Getting away from always having past-due bills or installment payments and cutting down on the program of committed payments.

Reaching a financial position so that the homemaker can drop employment outside the home.

Making schooling or child-care arrangements so that the homemaker can undertake full-time or part-time employment outside the home.

Objectives for the Present Year

A specific goal for the year might be to correct certain lopsidedness—for instance, to reduce fixed obligations that are too heavy, to create a reserve fund if there has been none, or to allow more for an area of spending that was neglected last year. Another might be to fulfill an important wish that has been slated for this year.

The family's basic needs in minimum food, clothing, and shelter must be met, even at the sacrifice of future goals, if income is too limited to provide both. However, the general goal would be to make the best combination of present and future provision that the year's funds permit.

The Week's or the Month's Goals

A reasonable short-period objective for most families would be to divide the available funds to meet that period's appropriate share of the year's spending requirements and to meet that period's special needs—perhaps an insurance premium, a new tire, or celebration of a family milestone—in addition to appropriate day-to-day requirements and reduction of debts.

To obtain a clearer picture of their financial needs for the year and its component budget periods, the family members will probably want to spell out in greater detail their requirements to meet these goals. They will need to determine what kinds and amounts of goods and services or dollar sums they place under each of the foregoing budget categories. This process, which leads the family into making a spending plan, is treated more fully in the following section III.

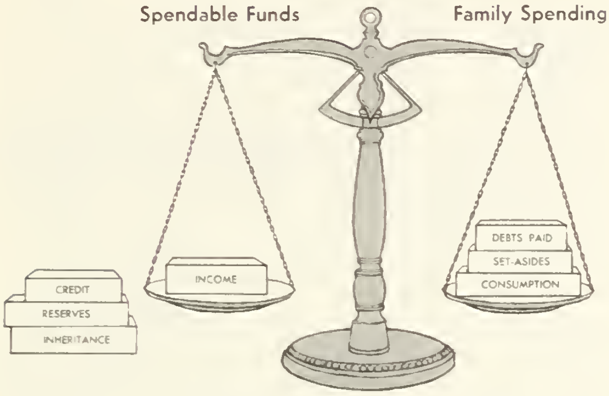
Section III.—Making a Family Spending Plan

The household or family budget, like any other budget, is a plan for deciding how income shall be used over a period of time and how it shall be divided among different kinds of goods, services, and reserves or savings. It is a balancing of funds and requirements—of means and ends.

Spending Plan Distinguished From Actual Expenditures

The budget's form may look much like a summary of past or present actual expenditures; only the figures would be different. The budget or spend-

HOW DO THEY BALANCE?



ing plan shows how the family proposes to spend its future income. It is built up from the ways in which the family expects to feed, clothe, and house its members, the kinds of recreation and other activities they plan to engage in and so on, through all their actions that will require money during the period. It also includes payments on debt and set-asides for future needs.

What a family has done with its money—what was its way of life and what were the resulting actual expenditures during a past period—is history. The money may have been well-spent or ill-spent. The expenditures may seem to have accomplished much or little of living. A summary of expenditures being made during a present period can serve as a good tool to test the spending plan in action, to see how it is turning out compared with the advance plan and what revisions in the plan may be desired.

Past Actual Expenditures a Basis for Planning

The review of their past actual expenditures for, say, a year gives the family members a good takeoff for making a new plan. They will be reminded of the unexpected expenses, the surprising totals to which many small items add, and the big-pressure items that must be allowed for if the plan is to be one they can really carry out. The review will be easier if some members keep records as they go along. If not, however, they can usually estimate last year's actual expenses well enough for the purpose.

Ways of keeping accounts and records of actual expense are discussed in section IV. Estimating past expense without records is treated on page 11.

Shaping a Plan for Future Expenditures

Section III deals chiefly with the way a family or single consumer goes about making a spending plan for the period ahead and judges whether the developed plan is likely to meet its needs.

Period To Be Covered

The plan should be for a time long enough to cover the bulk of a family's different kinds of expenses and receipts of income, and to provide for future wishes as well as payments on past debts. The year is usually a good span. However, the plan may treat 2 years, a month, a pay period, or any other period with which the family is specially concerned. A short plan for a few weeks or months may be useful as a trial to see the advantages and the loopholes.

The year on which the annual plan is based may start at any convenient time. It may be the calendar year, the school year, or a year starting on the present date and ending 12 months later.

After the family has figured a year's plan, it may subdivide the results into whatever budget operating period it finds most convenient for setting aside and spending funds. For a month's budget, the year's totals are divided by 12; for a week's budget they are divided by 52; and for a biweekly pay period by 26.

When To Start

For a Family That Has Not Made a Plan Before

Any time is a good time to start a spending plan, and now is better than later. The sooner a plan is started, the sooner the family's dollars become more its servant and less its master.

Whenever a family is dissatisfied with its present spending results, when it does not seem to reach certain of its objectives, or when it is facing a changed situation, the thinking that goes into a spending plan will be particularly helpful.

Getting family members interested.—A family is off to a good start when all members agree that a plan is needed. Many families reach such an agreement easily. In some, however, the husband or wife may feel the need for planning, but get little support from other family members. These members may have to be "sold" on the idea.

Lack of money at some crisis may be a step on which to build. Desire to avoid such stress the next time may spur lagging interest. Or perhaps a member's strong important-to-him special wish—a vacation, a new rug, a new suit, "eating out," or a bigger personal allowance—may sharpen interest.

Family members who are indifferent may sometimes be won over by a demonstration that planning brings results even when it relates to only a limited area of the budget—clothing, recreation, personal allowances, or past-due bills, for example. A practical test may show that food money goes farther with a shopping list based on menus built around "best buys" listed in market reports in the newspapers, rather than frequent stops at the grocery store for a few items, which somehow grow into more, including perhaps the candies, cookies, and cakes chosen by the children who accompany the shopper.

For a Family That Has Already Made a Plan

A family that has already made and followed an annual plan is likely to wish to continue, at least until it has found the general pattern that best suits its needs. Once the pattern is fairly well established, the family may not need to review its overall planning each year, until it comes up against a major change in needs or circumstances. It may rather concentrate on the day-to-day planning or on details of selected segments within the general plan.

Who Shall Participate

Principle of Sharing Responsibility and Knowledge

Except in unusual circumstances, as where one partner is incapacitated or very immature emotionally, it is desirable to have both husband and wife participate as equals. Planning will be most effective in a family where there is mutual confidence and trust. It will probably not be successful where one partner is dominant and uses financial control as a means of imposing his will on the other or on the children. When both husband and wife know fully the financial setting within which decisions are to be made, and respect each other's opinions, there can be teamwork in staking out needs and judging which are more essential. There are certain areas where the wife may be a better judge of needs; for example, replacement of sheets and towels. In others, perhaps car maintenance and house repair, the husband may see the needs more clearly.

There is the important job of steering or guiding the development and carrying out of the spending plan. Whether this assignment falls to the husband or wife depends largely on which has the time, interest, tact, and money sense to handle it. In many families it is a joint affair, with husband and wife cooperating as leaders.

In Farm Families

In farm families the cooperation of husband and wife is especially important if headway is to be made in financial planning. Funds for family living are usually pooled with those for farm operation. Should more money go to family living and a better house, or to buying land and equipment, building barns, and paying off mortgages? A new washing machine may have to be weighed against a new cultivator, the addition of a milking parlor to the barn against the addition of a bathroom to the house. Husband and wife may agree that the milking parlor is more important this year, because it will increase the income next year enough to pay for the bathroom. The family may want to list the home improvements or other major family living achievements it would like in the order of their urgency to be made as funds permit. Careful and continued study and family cooperation will help to achieve balance between home and farm spending.

Participation of Children

It is desirable for children to participate as early and as fully as their understanding and maturity permit. However, parents will need to decide how much and at what points the children should be brought in. As one homemaker said, "Children have big mouths and neighbors pump them." Not even at high school age, for example, might it be suitable for them to know all the details or the total of income and all the concerns the parents face in meeting bills or deciding on investment programs. Even small children, however, will profit from seeing something of the work and responsibility needed to bring in family income and something of the basis upon which their share is determined. Their responsibility, future financial wisdom, and feeling of fair play will be increased as they learn more about alternatives.

Shall the Plan Be General or Detailed

Sketchy but Completely Rounded Out General Plan

A family may want a rather sketchy but completely rounded out general plan, covering all uses of its funds, but with day-to-day details left to be worked out as it goes along. The following form might be used for this kind of plan. For many families this form is all they need to show the major choices at stake. The family that has already developed a pattern of spending that needs only minor changes in practices may also find this form sufficient.

Sketchy but Completely Rounded Out General Plan

Item		Dates needed	Amount per month (week, other)
Set-asides for:			
Future goals and emergencies			$____
Seasonal and large irregular needs this year:			
Taxes	$____	____	
Insurance premium	____	____	
School expense	____	____	
Special wishes	____	____	
Other	____	____	
Total			____
Debt reduction			____
Regular monthly or periodic obligations:			
Rent or mortgage payment	$____		
Utilities	____		
Installment payments	____		
Other	____		
Total			____
Day-to-day needs:			
Food	$____		
Household	____		
Transportation	____		
Personal allowances	____		
Other	____		
Total			____
Extras			____
Total			____

Partial but Detailed Plan

Another family may prefer a partial plan, that is, to focus attention on only one or a few selected sectors of the budget, as "household operations" or "recreation," or "automobiles," which are proving to be the trouble spots or points of interest. They would then probably want to consider a fair amount of detail, perhaps only for a short period, for the selected sectors. A family new to planning might like to start in this way to see if it could achieve useful results in areas of special concern. Such a plan might also be used by a family that has already achieved a satisfactory general plan, and now wishes to examine certain budget sectors or spending areas more intensively at various times, as one or two in rotation each year, or one for a week or a month. Several examples of partial detailed plans are shown on pages 12 and 13.

General and Detailed Plan

Once a family becomes interested, it may not be satisfied until it works out a combination of the two preceding plans: that is, a general plan covering all sectors but with at least some advance detail worked out for every sector. A complete list of major spending sectors and their component detail as classified in research studies appears on pages 29–31.

Step I.—Estimating Funds Available for Spending

Before family members can set dollar amounts alongside various needs, they face the basic question, "How much will we have to spend?" They need to know what they can count on from all sources for the coming year—cash income, goods and services they may obtain without expenditure of funds (as pay, gift, and homegrown and home-produced goods), and what reserves they are ready to draw on. How will the total funds compare with the proposed total of spending? How will the dates the funds will be received compare with the timing needs of the proposed spending?

Money Income

Besides its main source of money income, a family may have several supplementary sources. If income is very irregular, it may need an estimate for each month or important period within the coming year. A family may find sufficient a form, such as the following:

Estimated Money Income for ______ (period)

Item	Amount
Wage or salary of:	
Member A	$____
Member B	____
Member C	____
Other	____
Net profit from business, farm, or profession	____
Other money income from (What?): [1]	
____	
____	
Total	____
Total money income	____

[1] Such sources as: Investment income; social security, pensions, disability insurance, retirement pay; gifts of cash; regular contributions for support, public assistance, or other Government payments; babysitting, lawnmowing, odd jobs.

Exactness of money income estimate.—Families that have already prepared income estimates for tax statements may find these estimates will serve their purpose very well. Fairly exact estimates are usually not hard for families that receive a regular salary, wage or pension, or have a business from which they take a definite amount each month. Families of storekeepers, doctors, farmers, and others in business for themselves cannot be so exact and may have to accept a rough guess which is subject to change during the year ahead.

Prices may change or unforeseen business ex-

penses may cut funds for family living. The effect of weather on crops is usually unpredictable and important to farm income. Wage earners may be subject to unemployment hazards.

Planning when amount of income is uncertain.—If the family feels uncertain about how much money it can count on for family living, it may be wise to estimate the largest and the smallest amounts of spendable income likely to be available and to use the lower figure for the spending plan. The family with uncertain income should also take stock of the reserve funds it could draw on if income turned out to be low. It should give special attention to rating the urgency of proposed expenditures so it could omit the least essential if necessary.

Income in Kind

A complete and meaningful list of a family's resources should include its income in kind, which could be added to its money income. Examples are food received as gift or pay, or home produced; housing received rent free as part of pay, or as gift, or without extra cost along with rent of farmland; free labor or professional services received; materials received as gift or pay; free transportation; and so on.

Many families may prefer to omit from their spending plan such items that do not call for actual changing hands of money. This is the simplest procedure. It has the advantage of keeping the lists shorter and of keeping the emphasis on money income and outgo.

Other families may prefer the completeness of also writing down the important items they expect to take care of without cash expense. Such a listing shows a truer picture of the level of consumption to be achieved, especially if the family receives a substantial part or all of some sectors of its living in kind. It also affords a clearer view of the places where cash spending requirements are lowered because (or might be lowered if) the family undertook to have a garden, keep chickens or cow, or otherwise provide its own needs or receive them free. The spending requirement lists of such families might include such items as: "Milk and butter—from cow" (value $30 per mo.); "Vegetables—from garden" (value in summer $25 per mo., value of canned and frozen produce $300); "Apartment rent—no expense, part of pay" (value $50 per mo.).

The family planner may place a money value on such things at the approximate market price the family would pay if it purchased them.

If he further desires he may add to "money income" a figure that is the sum of all the "money value of things received in kind." The new total may be labeled "total income"; or it could have the more specific though longer name of "money plus nonmoney income" or "money income plus income in kind."

Drawing on Reserves

Retired families.—A retired couple, who made provision for retirement in earlier years, will likely use some savings to supplement their income. They should plan a regular schedule of cashing bonds or drawing on savings accounts or other assets, with due regard to leaving appropriate amounts for the expected remaining lifetimes of both.

Families who have set-asides for wishes.—If a family has been setting aside sums over past periods towards a certain "wish" that is slated to be fulfilled during the coming year, it can withdraw from these reserves enough to cover the cost. This amount can be added to income in estimating the current year's spendable funds.

Summary of Year's Spendable Funds

The planning family is now ready to add the funds it can count on from the various sources considered, to find its estimated spendable total for the year. It may also now be able to judge at what times during the year the sums will be available if they will not be received regularly.

The year's total spendable money income could then be divided by 12 to show the amount that would be reasonable to spend per month; divided by 52, the amount per week; divided by 26, the amount per biweekly pay period. These figures are the ones to compare with the money cost of the family's wishes.

The following summary form may be helpful:

Summary of Estimated Spendable Funds

Item	To be received in—					Year's total
	Jan.	Feb.	Mar.	--------	Dec.	
Money income	$____	$____	$____	$____	$____	$____
Reserves to be cashed	____	____	____	____	____	____
Total spendable money income	____	____	____	____	____	____

Step II.—Estimating Expenditures

The second basic question of the family planning a budget usually is, How much did we spend for what last week?, or last month?, or last year? With this information, even if only partially or sketchily complete, it can better tell what the probable cost of the coming year's needs will be.

Estimating Past Expenditures

Forms for summarizing past expenditures have been developed by the Consumer and Food Economics Research Division. They are available to teachers and other leaders in limited quantities. They cover the same categories and components listed on pages 29–31. To make such summaries a family need not have kept records. It can usually reconstruct or recall its past activities well enough to arrive at approximate figures that will serve for planning purposes. Checkbook stubs, receipts, or old bills may help accuracy but are not essential. For example, the family can usually name offhand the amounts of such regular payments as rent or mortgage and installment contracts. It also knows pretty closely, or can readily find out, what it has been paying for electricity, gas, heating fuel, taxes, insurance premiums, and some other large items.

For some other family expenses, such as food, clothing, medical care, transportation, furnishings and equipment, review of a detailed checklist or keeping a record for a short time will bring to mind items that might otherwise be forgotten. The details on any list are only suggestive. Those that do not apply to the particular family or are not of special concern to it may be skipped over. If the family needs only a sketchy estimate of past spending, it may prefer to estimate only the approximate totals for each major category, using any details merely as reminders of what is included.

Families may draw up a summary in the form best suited to their way of thinking. The purpose is not to follow any set method, but to find the way the family can most readily picture its past spending, including its savings or increase in debt. The marshaling of such facts is likely to arouse new interest of all family members.

Estimating Next Year's Expenditures

For some families, the summary of last year's expenses, with a few changes to meet new conditions or wishes, will give a satisfactory guide plan for the coming year. If so, they would be ready to consider how best to carry it out.

Others may find they cannot use or are dissatisfied with last year's results as a basis for a new plan. A fresh approach and drawing up a new list of the family's spending requirements for the year ahead may be called for. Perhaps some sectors will require special attention, as in the examples on pages 12 and 13.

Even if the family should go no further than to jot down its major spending requirements for the year ahead, it would benefit. It would have the crux of a spending plan.

Need To Balance Future Needs, Current Requirements, and Past Debts

To arrive at a reasonable division of its funds over a year, a family needs to consider how much should be set aside each week or budget period for the yearly and more distant goals, possible emergencies, and debt reduction; and then to examine whether the rest can be apportioned so as to provide enough of the present necessities and amenities.

The planning family will need to draw up at least sketchy (detailed if it prefers) lists of its requirements or needs for years ahead, for the current year, and for debts, if any. A good plan will aim at a proper balance between present and future needs, with neither sacrificed unduly to the other. Also, it will allow for prompt payment of debts as they become due.

The family's list of needs for years ahead grows out of its future goals or wishes discussed on pages 4–6.

The list of needs for the current year is built up from (1) regular and essential requirements such as food and shelter; (2) essential but irregular requirements (such as seasonal fuel and clothing, school supplies, medical checkups) which can be taken care of in part by scheduling them at different times through the year and in part by building reserves at each budget period to take care of them; (3) some possible large bills that cannot be foreseen, such as medical or other emergencies, which can sometimes be provided for at least in part by insurance plans or savings funds; and (4) all the other miscellaneous and extra expenses for family living and members' activities.

Its debt list grows out of the commitments the family has made in the past, the things it has acquired on time payment, and other obligations it has incurred.

Time Factor

Need to plan times of expected payment.—One essence of budgeting or planned spending is to space out funds to meet needs over the week or month, the year, and the lifetime. Whether the family seeks a sketchy or a detailed spending plan, it may group its planned purchases by times it expects to make them or, to speak more exactly, by times it expects to pay for them. This timing summary tells how much money the family will need at various periods of the year and beyond.

Detailed Plan for Clothing and Personal Care

Item	Amounts per member							Total for family	
	Member A		Member B		Member C		Other		
	Last period [1]	This period	Last period [1]	This period	Last period [1]	This period		Last period [1]	This period
Readymade clothing:									
Major purchases (What?):									
______	$____	$____	$____	$____	$____	$____	$____	$____	$____
______									
______									
______									
Minor or small items (What?)									
______									
Accessories									
Jewelry and watches									
Materials									
Sewing service and garment repair									
Shoe repair									
Drycleaning									
Cosmetics and toilet articles									
Beauty and barbershop services									
Total									

[1] Entries for "last period" are optional, but would give a basis for estimate for the coming period or year.

Detailed Plan for Taxes

Item	Check here if deducted from pay or included in other regular payment [1]	Dates direct payment will be due	Expense last year [2]—		Amounts for this year that will be—	
			As deductions or in other regular payment [1]	Paid directly	Deducted from pay or included in other regular payment [1]	Owed directly (in excess of sums that will be deducted from pay or included in other regular payment) [1]
Federal income			$____	$____	$____	$____
State income						
City income						
Social security						
Real property						
Personal property						
Street assessment, sewer, or other improvement						
Automobile licenses						
Other licenses						
Other taxes (What?)______						
Total	xxx	xxx				

[1] Such as monthly mortgage payment.
[2] Entries for "last year" are optional, but would give a basis for estimate for the coming year.

If each month's income took care of each month's outgo, the family could ignore the time factor. It could merely follow a pay-as-you-go plan. But irregularity of some incomes, and the large cost all at once of certain types of needed purchases make this neat arrangement very rare.

Need to balance spending with income periods.— Almost every family has some periods when expense temporarily exceeds income. It is still true, however, despite the attractions and wide use of consumer credit plans, that a family cannot borrow on its future income indefinitely and make progress

Detailed Plan for Gifts and Contributions Outside the Family

Item	Expense last year or period [1]	Planned expense this year or period		
		Every week or month	Special times—write in dates and amounts	Total for year or period
United Campaign or Combined Federal Campaign	$	$	$	$
Religious organizations (What?)				
Gifts to schools, colleges, charitable organizations (What?)				
Other charitable contributions (What?)				
Christmas, birthday, and similar gifts to persons outside the immediate family (Who?)				
Support of relatives or other persons not members of immediate family (Who?)				
Other				
Total				

[1] Entries for "last year or period" are optional, but would give a basis for estimate for the coming year or period.

toward financial security. It must have some periods when income is greater than expenses, when it is setting aside reserves. The great merit of a spending plan is that it helps the family to recognize and regulate these periods in a helpful way, to avoid financial panic at one period and overspending in another.

Need to spread big expenses.—A key to a good plan is to spread big expenses and needed set-asides so that each month or income period bears a share of them. Installment payment and revolving credit plans offered by merchants or lending institutions help to spread big expenses, but at a cost. Such plans have gone hand-in-hand with lowered prices made possible by mass production. They have enabled many families to acquire homes, automobiles, refrigerators, furniture, and other durable goods with money that might otherwise have disappeared in many small ways. The carrying-charge costs of credit accounts, however, and the ease with which a family may overcommit itself through their use may be so great that the family never seems to catch up. The family can spread out big expenses, without the carrying-charge costs and with its own planned choices controlling, by simply calculating its own spending plan, and stiffening the backbone in determination to carry it out.

Estimating Set-Asides Required for Future Wishes

For which of the big future wishes does the family want to make some progress this year? What is the approximate cost and the hoped for year of achievement for each? From such facts the family can arrive at a tentative figure for amounts it needs to set aside each budget period this year to fulfill its wishes when the time comes. It might set the figures down in a manner somewhat as shown below:

Planning for longrun financial needs.—The family will be able to formulate many of its long-range goals but may have trouble putting realis-

Detailed Plan for Set-Asides for Future Wishes

Item	Probable total cost	Date when hope to achieve	Amount to set aside this year [1]	Amount to set aside per month (week, other)
College fund	$		$	$
Paid up home, farm, or business				
Major equipment—purchase or replacement				
Other (important wishes listed separately)				
Total set-asides		xxxxxxxxxx		

[1] Plan may also show where funds are to be kept, as savings account or U.S. savings bonds.

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tic price tags on them. The family should bear in mind that over the long pull the trend of prices has been generally upward. For this reason, set-asides for future wishes must be reexamined periodically.

Housing requirements for the years ahead, if not their costs, can often be gaged quite accurately. Home improvements and additions to and replacements of furnishings and equipment can be scheduled in their order of preference as income permits.

Requirements of children can be expected to increase as they grow. A college fund may be an important objective. In 1964–65, student expenses for tuition and fees, room, and board at colleges averaged $950 in public and $1,907 in private institutions. The average for tuition and fees for the full school year was $243 in public and $1,088 in private institutions (*12*, *table 109*).[1]

The kind of living that will be possible in retirement years can be thought out ahead. The family can find out the amount to be expected from social security or other pension or retirement benefits of both husband and wife and compare these amounts with those needed for their desired future living requirements. If the margin looks uncomfortably close, they may want to supplement by saving now to help yield a more generous living in old age.

Changes in life insurance needs at future stages of the family life cycle can be pictured, and amount and kinds of such insurance carried can be varied accordingly.

A provident family wants funds or insurance to cover burial needs and to provide for surviving dependents in addition to such social security allowances as they would be entitled to. Members can check on how much group life insurance they may have as employee benefits. They may also want to check on contracts or other debt commitments that might become a problem or burden to survivors and make the best possible arrangements for their future handling. The husband—and wife also if she has separate or joint property—should make an appropriate will in accordance with laws of the State to make reasonably sure that his intentions will be carried out.

Planning for emergencies.—The more carefully a family looks ahead, the fewer surprise needs are likely to arise. A family may find itself in a financial jam because it failed to allow for the special tax assessment, or because it did not note that the house would need a new chimney. But some critical situations cannot be anticipated. The house may burn down or be badly damaged; sickness may bring doctor's bills; or a family emergency in another town may make an expensive trip necessary.

Some of the many hazards that can bring temporary or permanent lowering of family income or

unexpected emergency expenses are as follows: Accident, sickness, death, fire, storm, loss by theft or otherwise, damage to property of others, civil disturbance, war, unemployment, disability or other loss of earning power.

A thoughtful family will consider the possible ways it could meet such crises if they arise. Many try to provide an emergency fund by saving when needs are relatively low or income relatively high. Others make regular deposits each week or month in a special bank account, to be drawn on only for such special needs. Still others earmark certain kinds of income, such as the wife's earnings, for this treatment or contrive other ways to build an emergency fund. Many families take out insurance to cover some kinds of uncertainties—especially the one that would cause the most catastrophic loss, the death of the principal earner of a family with small children.

In deciding which risks to cover by insurance, a family may consider the following: (1) The chance the loss will actually occur, (2) whether the financial loss if it did occur would be much more than the family's reserves could stand, (3) whether the price of the insurance is reasonable for the protection offered, and (4) whether the cost of the premium can be fitted into the family budget without too great a strain on other important parts of family living.

A definite program of saving can go a long way

[1] Italic numbers in parentheses refer to Literature Cited, p. 49.

toward providing a cushion for emergencies and funds for important future needs. Paycheck deductions for such things as savings bonds, group life insurance, and pension funds are parts of such a program. With careful planning, a family of modest income can usually manage at least a small amount of additional saving toward future needs. This saving will form a part of the set-asides in its present spending plan.

Whatever are the decisions, the annual spending plan should allow the proper amount of saving during the current period to meet the future program desired—if this can be done and still leave enough income to meet essential current needs.

Making set-asides for the future.—After the family has figured the amount of set-asides and date they will be needed, it is necessary to decide how to accumulate the desired funds. One way is to make monthly deposits in a savings account, taking into consideration the interest that will be earned. The monthly deposits required will vary with the total amount of fund desired, the rate of interest paid and the method of figuring interest, and the length of time the fund will be drawing interest.

Table 1 shows the monthly deposits required to accumulate $100 in a savings account at various interest rates compounded semiannually and for different time periods. The use of the table is not limited to accumulating this amount only. It can be used in relation to any end amount by use of the appropriate multiplier.

Let us assume that the family will need to buy a new vacuum cleaner costing $100 in a couple of years. If the family puts $4.04 each month into a savings account paying 4 percent interest compounded semiannually for 24 months, it would have the money to buy the vacuum cleaner. Or, if the family would like to have a larger amount, perhaps $500 for house repairs or a vacation at the end of 2 years, the monthly deposit required would be $20.20 ($4.04×5). The interest earned in 2 years would make up about 3 percent of the total fund. If the same amount of money were accumulated over a 5-year period, the interest earned would account for a larger proportion—8.7 percent.

The family may be tempted to say, "This is the last, not the first step, in our plan. We'll save for the house repairs or a vacation, if there's anything left over from our monthly needs; we'll buy the vacuum cleaner on the installment plan."

But if it does not at least try to build the important future wishes and longrun needs into this year's plan, the family may always find the funds swallowed up by present spending. The "big-ticket" wishes will stay always hoped for, but never achieved.

True, because of temporary circumstances the family may decide a certain year is not the one in which savings for the future fit; but this decision, if it is the necessary one, is better made after the family has compared the alternatives and sees clearly what it is sacrificing by making the present purchases.

Besides, the family should remember this is only a first step. It can always come back and revise the plan if the set-aside figures look too ambitious compared with present needs.

Estimating Set-Asides To Cover This Year's Committed and Large Irregular Expenses

What are the "gobblers" in this year's needs? How much has been committed to installment payments? When do insurance premiums and taxes come due? How much fuel is needed for the winter heating season? Will the old furnace have to be replaced? Is this the year for a big vacation trip or other big wish? How about that needed new suit or winter coat, or some new piece of furniture or equipment? Will there be large medical bills or other emergencies that otherwise could prove to be budget "smashers"?

Over a period of a year, for the moderate-income family, expenses that come up only from time

TABLE 1.—*Monthly deposits required to accumulate $100 when interest is compounded semiannually*

Interest rate	Period of deposits					Interest that would accumulate in—				
	1 year	2 years	3 years	4 years	5 years	1 year	2 years	3 years	4 years	5 years
	Dollars	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*
3 percent	8. 27	4. 07	2. 68	1. 98	1. 56	0. 77	2. 22	3. 69	5. 14	6. 58
3½ percent	8. 26	4. 06	2. 66	1. 96	1. 54	. 87	2. 59	4. 29	5. 46	7. 63
4 percent	8. 25	4. 04	2. 64	1. 94	1. 52	. 99	2. 95	4. 88	6. 78	8. 66
4½ percent	8. 24	4. 03	2. 62	1. 92	1. 51	1. 11	3. 31	5. 47	7. 59	9. 75
5 percent	8. 23	4. 01	2. 61	1. 90	1. 49	1. 23	3. 67	6. 07	8. 39	10. 76

NOTE: Other amounts may be obtained by multipyling deposits shown by appropriate relation of amount to basic $100; for example, for $50 multiply by 0.5, for $1,000 multiply by 10, for $2,000 multiply by 20, and so on.

to time or at special seasons or dates may include the following:

Income and social security taxes, if these are not deducted from pay.
Property taxes.
Insurance payments.
Gifts and contributions.
Seasonal fuel bills, lawn and garden supplies as needed.
Maintenance of a car.
Housefurnishings and equipment, repair or purchase.
Major articles of clothing that meet the work, school, and social needs of the family.
Regular medical and dental checkups.
Seasonal school expenses such as books and supplies, tuition for college, special lessons such as music or dancing, perhaps private school expense for a child with special needs.
Vacation expense, such as transportation, food, and lodging away from home and other costs.

Many though not all of the requirements in the foregoing list must be faced by low-income families, too. They must have clothing and fuel. They must pay income taxes and property taxes if they own property. They have health needs and sometimes unavoidable transportation expense.

Fitting large expenditures into the longrun plan.—Certain expenses are so large that many incomes can cover only one or two of them in any single year. Examples are the expense of a new baby, major equipment such as a new refrigerator, or purchase of an automobile. To provide for several such large expenditures, the spending plan would have to cover several years.

Purchases may have to be staggered so that brother gets a "good" suit one year and sister a winter coat the next. Furnishings for the kitchen and living room may have to take turns with overcoats, hospital bills, vacation trips, and house repairs.

If it is a year of unusually low income, or large emergency expenses, the planned-for large expenditure may just have to wait over for another year.

A piece of household equipment, or an automobile, may have to be used longer before it is replaced. The Consumer and Food Economics Research Division found that the average family replaces a new refrigerator or range after 16 years, an electric washing machine after 10 or 11 years depending on type, and an upright vacuum cleaner after 18 years. The figures in table 2 may give families some idea as to how frequently they may need to budget items of household equipment.

If regular set-asides remain in a savings account long enough to earn interest, which adds up surprisingly fast, this extra income will help pay for part of the purchase price. The more cash the family has ready at the time of purchase, the better price bargain it can make and the shorter the term it may have to remain in debt if it buys on credit.

Paying a small amount down and spreading out the balance in installments over 18, 24, or even 30 months or longer is an increasingly common way in which families of modest income budget for large major purchases.

Here, there are three chief problems to watch: Whether the best available credit terms have been shopped for as carefully as the merchandise itself; whether the budget as a whole can stand the addition of these monthly payments; and whether the need to have the item now is really so great that it is worth the higher cost.

Usually when the family obtains a loan, it must repay the principal plus an extra cost, whether this is called interest, carrying charges, or something else. Especially on installment credit contracts and small loans, these costs are likely to be very high when computed as true annual interest rates—up to as much as 36 percent a year and sometimes much more. More information about rate computation and cost of credit is given in section VII.

Over a period of years, the family that always owes installments loses in two ways—it never has the extra income from interest that its payments might have earned while they were accumulating, and it pays a credit price that is always substantially higher than the cash price.

The credit price can be easily computed, though often it is not shown. It is the sum of (a) the downpayment plus (b) the amount of the monthly or

TABLE 2.—*Average number of years selected items of household equipment are used by one owner*

Item	New when acquired	Used when acquired
Electric refrigerators	16	8
Electric freezers	15	11
Ranges:		
Electric	16	8
Gas	16	9
Electric washing machines:		
Automatic and semiautomatic	11	5
Wringer and spin dryer	10	6
Electric automatic dryers	14	--------
Automobiles	6	4
Vacuum cleaners:		
Upright	18	8
Tank	15	--------
Wool living room rugs	14	10
Sewing machines:		
Electric	24	16
Treadle	--------	13
Toasters:		
Automatic	15	8
Nonautomatic	7	4
Televisions	11	6

Source: Studies by Consumer and Food Economics Research Division.

weekly payment multiplied by (c) the number of months or weeks required to complete the payment. Interest and other carrying charges are always a part of the installment credit price and they often greatly increase the total cost. The longer the time the payments are spread out, the higher is the total credit price. (See section VII for method of computing credit costs.) For example, a refrigerator with a cash price of $249.50 has a credit price of $272.50 if the downpayment is $25 with monthly payments of $13.75 for 18 months. The same refrigerator costs $283 if purchased for $25 down and $10.75 a month for 24 months. The difference between cash and credit price is $23 in the first case, but $33.50 in the second.

These two sources of extra money—possible interest that could be earned plus credit charges saved—mean that for the same number of dollars spent, the cash-paying family gets more or better quality things—carpets, appliances, or whatever large purchases it chooses—than the one that pays in installments.

Another point to consider, though many families do not think of it in that way, is that each balance owing on installment is a debt, a kind of mortgage on wages or income not yet earned. As we have seen, various emergencies can cut off or reduce that future income, or create new needs that will make the payments difficult or impossible. This may lead to repossession, with loss of the payments made to date. In some cases, even repossession does not clear the debt; if a repossessed automobile, for example, does not sell for enough to cover the balance owed by the family, some States allow the dealer to make a legal claim on the family for the difference, plus sometimes an additional charge for the costs of repossession.

Such problems are avoided by the family that spaces out its big purchases and pays cash for them.

Despite the foregoing disadvantages, a family may decide the advantages of having immediate use of something are worth the higher cost. Then it will need to make sure, perhaps by a test of a couple of months, that it can meet the monthly payments without undue strain. Also, it should shop for best credit terms. There are often wide differences in offers. The family may find it can borrow money at a credit union, bank, or elsewhere at cheaper rates, pay cash for the purchase, and repay the money loan faster than it could have paid off the contract offered by the dealer. This arrangement would save money, compared with the more expensive installment purchase contract, though it would still cost more than if the family could pay cash.

Monthly totals for set-asides.—Let us suppose that the family planner lists these major committed expenses and large irregular ones so far as he can see them for the coming year according to the month in which they'll likely occur. These figures, added to the set-asides for the future, might look something like the following:

A Family's First Estimate of This Year's Set-Asides, Committed, and Large Irregular Expenses, by Months

Item	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Year's total
Gifts and contributions	$5	----	$20	$5	$5	$20	----	----	$20	----	----	$100	$175
Income tax [1]	----	----	----	59	----	----	----	----	----	----	----	----	59
Insurance [1]	----	----	130	----	----	----	----	----	----	----	----	----	130
House taxes [1]	----	----	88	----	----	----	----	----	88	----	----	----	176
Mortgage payments [1]	50	$50	50	50	50	50	$50	$50	50	$50	$50	50	600
New furnace	----	----	----	----	480	----	----	----	----	----	----	----	480
Winter fuel	45	45	40	----	----	----	----	----	----	----	30	30	190
New furniture	----	75	----	----	----	----	----	----	----	----	----	----	75
New suit and coat	105	----	----	----	----	----	----	----	----	----	----	----	105
Installment payments on:													
Refrigerator [1]	14	14	14	14	14	14	14	----	----	----	----	----	98
Automobile [1]	40	40	40	40	40	40	40	40	40	40	40	40	480
Subtotal	259	224	382	168	589	124	104	90	198	90	120	220	2, 568
Set-aside for future wishes	70	70	70	70	70	70	70	70	70	70	70	70	840
Reserve for emergency	10	10	10	10	10	10	10	10	10	10	10	10	120
Total	339	304	462	248	669	204	184	170	278	170	200	300	3, 528

[1] Payments are those to which the family is committed by signed contracts or other legal requirements.

If the family could spread all these payments equally throughout the year, $294 a month would take care of them all, including the new furnace. It could achieve this spread, if not in time for the present year, at least for the next, through its own budgeting, without paying additional interest and carrying charges.

It would not be so easy to reduce or postpone the legally committed expenditures as some of the others. Nevertheless, the family should not consider them inevitably fixed. Perhaps it might better itself by changing certain arrangements which would alter these payments, and could do so a little later if not this year. (See p. 21.)

Estimating Sums Needed for Past-Due Bills and Debts

If there are debts, the family will help itself by writing them all down, seeing their total, and planning their reduction, in a manner somewhat as shown below.

Clearing debts, or at least making regular scheduled reductions, is essential to a sound family financial position. If the payer is unable to meet a payment when due, but explains the reason to the creditor by going to see him or sending a note in the mail and states when he expects to make the next payment or works out a new payment schedule with the creditor, he may keep up his credit rating.

The family with a backlog of debts may consider whether they were caused by emergencies not likely to be repeated or whether they are part of a consistent pattern of attempting commitments that are too heavy—of buying too much too soon. If the second is the problem, the planners should look very sharply at adding any new installments until they have paid the old debts or at least whittled them down to proportions that do not too severely strap such current necessities as food and transportation.

Detailed Plan for Past-Due Bills and Debts

Person or firm owed	Total amount now owed	Amounts to be paid (monthly, weekly, special dates, or other times)	Dates payments will be completed
Doctor	$____	$____ per ____	____
Landlord	____	____ per ____	____
Store	____	____ per ____	____
Other	____	____ per ____	____
Total	____	____ xxx xxx	xxx

Estimating Sums Needed for Regular Monthly and Week-to-Week Requirements

Monthly bills.—Some bills come up regularly every month for any family. There is the rent, if the family does not own its home. Then, there are the utility bills, if these are not included in the rent—the electricity, gas, and telephone. Other regular monthly bills may be for trash or garbage collection, home-delivered milk, newspaper if family subscribes, and so on. Contributions to relatives and dependents can be added here if they were not included earlier. The family can plan quite accurately and easily just about what these will amount to and whether they will vary from month to month.

Weekly and daily needs.—The next items to be set down on the requirements list are the weekly and daily needs. These are the expenses the family can change most readily, though not necessarily most wisely. Here are included the nibblers, those seemingly small, harmless expenses that sometimes add to much greater totals than the family realizes until it does some checking. The general plan provides a preliminary test of whether the amounts left for such spending, after set-asides and regular monthly bills, provide enough for the essentials and amenities of daily living.

Food requirements are usually quite regular. Because food is basic to health, the planning family will not want to skimp on food expenditures to the extent that they fail to obtain a nutritionally adequate diet. One way to get the foundation for a good diet is to follow the suggestions made in the USDA Leaflet 424, "Food for Fitness—A Daily Food Guide" (*11*). This guide specifies the number of servings needed every day from each of four food groups—meat, milk, vegetable-fruit, and bread-cereal.

Household operations needs are important in a weekly list; also automobile upkeep, and the personal allowance and usual funds each member needs. Expenses for laundry and drycleaning, cleaning supplies, equipment repair, bathroom supplies, light bulbs, and so on come into the household operations costs. Babysitters, yard help, or paid household help may be required. There may also be small furnishings and equipment needs.

For personal allowances the family may wish to assign to each member who is old enough an agreed upon sum and let him decide the division of it to meet his personal needs. Another family may find it works better to detail these requirements in the family plan, perhaps wishing to calculate for each member requirements in as much detail as shown in the form on page 19.

Suppose, for example, a family is concerned with checking excessive expenditure of money in certain areas, as perhaps through such nibblers as

Detailed Plan for Personal Allowances and Requirements of One Family Member

Item or category	Expense last year or period [1]	Planned expense this year												Remarks
		Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	
Meals, snacks, refreshments away from home.	$	$	$	$	$	$	$	$	$	$	$	$	$	
Clothing [2]														
Personal care [2]														
Medical and dental care and supplies.														
Busfare, gasoline, auto upkeep														
Other transportation														
Admissions, other entertainment, and recreation away from home.														
Toys, hobby, sports supplies														
School supplies, tuition, special lessons.														
Other reading materials, stationery, musical supplies.														
Dues and contributions														
Gifts outside the family														
Gifts within the family														
Other														
Total														

[1] Entries for "last year or period" are optional, but would give a basis for estimate for the coming year.
[2] In as much detail as desired, see p. 12.

candy and snacks or small articles of clothing and personal care. It might then want to figure in detail what are reasonable personal allowances and hold spending to the agreed upon total, even though to preserve personal freedom it may not always care to ask individual members to account for their detailed expenses in these areas.

Estimating Sums Needed for Miscellaneous and Extra Expenses

In a good spending plan, in addition to reserves for future wishes and important emergencies and allowances for regular monthly and weekly needs, there should always be some leeway for the small unexpected or forgotten items that are bound to come up and for extra treats to boost morale. Perhaps there are books, magazines, and records, some housing expense not already allowed for, flowers or garden supplies, stationery, postage, and so forth. It is better to overestimate than to underestimate probable expenses.

Summary of Year's Spending Requirements

With the information put together in the foregoing steps, the planning family is ready to add five totals for a first look at the cost of its wished-for year's expenses. The totals cover the following: (1) Set-asides for future long-term wishes and for possible emergency needs; (2) set-asides for this year's committed and large irregular expenses; (3) sums needed for past-due bills and debts; (4) sums needed for regular monthly and weekly needs; and (5) miscellaneous and extra spending. The sum of these totals is a first rough figure, ready for comparison with income and other resources, and it may have to be revised in their light.

Step III.—Comparing Requirements and Resources

The planning family, at this stage in drawing up a plan, now has two crucial figures—the approximate total of its money requirements and the approximate total of its money resources for the coming year (and corresponding figures for each month or budget period). These must somehow be brought into balance.

If Resources Are Greater

If the resources exceed the requirements, all is fine and the difference can be added to set-asides for future wishes, or to expand the list of wants to be satisfied this year. The family can probably congratulate itself on a good plan and turn to details of carrying it out. (See section IV.) If for some months requirements exceed resources, but over the whole year resources are sufficient, the main problem is to stagger or prorate expenditures by months.

If Requirements Are Greater

If, as more probably will happen, the estimated requirements are greater than the prospective funds, the family needs to take a new look at all parts of the plan. There are many possibilities to consider before it strikes specific wants off its list.

Possible reductions in requirements.—Keeping in mind its major goals and its probable money to spend, the planning family is ready to take a new harder look at its requirements. The comparison might be as shown below.

Reducing costs.—Can estimated costs be lowered by accepting cheaper qualities of some things, or substituting other articles that cost less but serve the same purpose—like an eggbeater instead of an electric mixer, or new chair bottom instead of a new chair, or backyard barbecues instead of meals out and paid entertainment? (Where durability is important, as in some clothing, the higher quality is often more economical in the end.) Is there anything the family can make instead of buy—cakes, home shampoos and haircuts, girls' clothing, "handed down" or remade clothing, home improvements, painting, dyeing, home-produced fresh garden vegetables for instance? Or get free—camping facilities, recreation programs, sewing or craft instruction, public library books, magazines and records, and concerts?

Can goods be bought cheaper in quantity, or at sales, or from different sources of supply than the family has been using? (Has the home proper storage facilities to make quantity buying efficient? Also, can the family have sufficient funds available to buy in quantity at the times the sales

Item	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
Money resources (spendable funds)	$470	$510	$598	$585	$805	$450	$333	$435	$535	$325	$400	$400	$5, 846
Money requirements (first estimate)	539	504	662	448	869	404	384	370	478	370	400	500	5, 928
Difference	−69	+6	−64	+137	−64	+46	−51	+65	+57	−45	0	−100	−82

occur?) Can the members use new methods in cooking or other procedures to cut costs? For example, can they cut down the heating fuel bill by buying insulating material paid for from reserve funds and installing it themselves? Can they paint or paper rooms themselves? What other economies are practical?

Reviewing list of needs and assigning priorities.—Assuming the family has done its best at shaving prices paid and costs, if the requirements are still too expensive some may have to be put off for a year or so, if not dropped altogether. After careful thinking and probably several family consultations, the members may now be ready to assign definite priorities or ratings to various wants.

Which are the most essential, three-star (***) items that the family must have? Certainly minimum food, clothing, and shelter come here.

Which could the family postpone or do without this year if necessary, the one-star (*) items? Here are all the nice extras, the luxuries, and some of the big purchases the family hopes to make. Some can be carried over to the next or a subsequent year's plans, if need be, or postponed till later in the present year to see how the budget works out.

Which are the in-between, two-star (**) items? These are the things the family will not postpone if it can possibly find the funds to cover them this year, though it might hold back on some till later in the year.

In the weighing of claims of various needs there are many possible alternatives. Here fair play and mutual consideration among family members and the family's values of what things are good—its goals—are important guides. The family may have to choose between party dresses for daughter or a new coat for father. Perhaps they have to choose between music lessons for a talented member or a new television set, between cleaning up back debts or necessary but not urgent surgery. Perhaps painting the house looks possible only if nothing is put into this year's quota toward future wishes. Small, not-to-be-accounted-for, personal allowances or expense for some little things that ease the strain of daily living may be preferred on the list of needs to pushing too hard toward a big-ticket goal. These are the questions to which only the family can provide the answers most acceptable to it.

Changing committed expenses and set-asides.—Before the family planners decide they can make no further reductions on the spending side, they should scan what they consider to be their set obligations. If the total of contract payments they have already undertaken does not leave enough margin for day-to-day needs, some of the contracts may be just too expensive for the family to maintain.

The wise course might be to scale down or eliminate some of them, even though this might take time and cause some temporary inconvenience and disappointment. For example, the family might honestly ask: Would we be better off to turn in a too-expensive car and get a cheaper one, or go without for a while? Should we arrange to move to a lower priced house, or to convert an endowment insurance policy on the breadwinner into term or cheapest possible life insurance without extra features? Could we surrender or sell one unpaid-for item, even if at some loss, and use the payments we would be making on it to clear up other debts and thus keep up our credit rating? Could we borrow at lower rates to close out some high-carrying-cost charge accounts? Do the terms of our high-cost accounts permit this earlier paying off of principal and saving of carrying charges?

Should we drop membership in a club, or take Mary out of a private school? Are we unable to finance George further in college, and should he seek a job or borrow from a campus loan fund or bank if he cannot win a scholarship to pay his own way?

Possible ways to increase spendable funds.—The family may conclude there is nothing more they can or are willing to cut. It may prefer to consider building up income or spendable funds as an alternative way to balance the budget.

Perhaps some members could take on additional or part-time employment, or find odd jobs to do. Son might cut grass or deliver newspapers. The wife might take a job. Perhaps some small business, service, or sales line could be developed on the side; the husband or wife might make some hobby or talent pay. Maybe business or farm efficiency could be increased by new methods or efforts. Perhaps, with different reserve or savings arrangements, some funds could earn interest or more interest than at present.

Such income-increasing possibilities might not be practical for some families. The family might conclude that the disadvantages of additional members entering the labor force would more than offset the added income they could bring in. The

wife might be more needed at home with small children, or her earnings might leave insufficient margin above income tax and other costs of her working. The children might be too young or need their energies for schoolwork and growth. Extra work by the husband might mean sacrificing health or important time to be with his family.

Another source of funds might be drawing on some reserves. This might mean withdrawal from savings banks or other deposit institutions. It might mean cashing insurance policies, selling bonds or other properties or possessions. Many families find such reserves "lifesavers" in times of emergency or unexpected large demands. Familes whose incomes fluctuate widely from year to year may draw on reserves to see them through a particularly low-income year. This is likely to be true with farmers and independent business and professional families. Families who have saved toward a particular wish or requirement may draw on those savings when the time arrives—for example, for a child's going to college or for buying a home.

A third possible source of funds for this year's spending might be to draw in advance on future income. This may be done in two ways—purchasing on credit or borrowing money. Both mean going into debt, promising to pay in the future for something received in the present.

If a family does not have enough cash income and available reserves to meet its emergency or "must," or even its highly desired needs, especially of the week-to-week variety, it may have no immediate alternative but to go into debt. Sometimes temporary factors make this necessary, or even desirable, depending on the future outlook of the family and purposes for which the borrowed funds will go—for example, an emergency operation, housing or equipment for a family expecting another child, or a college education. However, costs are involved, and the wise family will be alert to their amounts and their effect on its future budgets. (See section VII.)

The family might be unwilling to sacrifice possessions or go into debt. The extent of its present commitments and the higher cost of installment purchase might indicate the family should rule out an increase in installment debt.

Again, these are decisions that in the end only the family can make, in accordance with its values and goals. It may find help, however, in making the decisions by thinking about the alternatives, by seeing that there are other ways of spending than the ones it has been in the habit of following.

The Emerging Spending Plan

After the family has given thought to some of the foregoing or similar questions, it will be better able to decide what is "going to give" in bringing its plan into balance. Then, its revised figures provide the working basis of its spending plan, its guide.

In some temporary or special circumstances, it may be impossible for the family to balance funds and requirements. For an independent family, this will probably mean borrowing or a drastic temporary reduction in the level of living. For others, the only solution may be to seek public relief.

The spending plan should remain subject to continuing scrutiny as to its reasonableness and desirability. It should always be subject to change—not impulsive, but after due family consideration—as circumstances warrant.

Outside Checks on a Spending Plan

Comparison with norms.—Various "rules of thumb" are sometimes quoted as guides. Examples are such statements as: "When a home is purchased with a small downpayment, the price should be below 2½ times the annual take-home income." "Total housing costs per month should not exceed 1 week's take-home pay." "No increase in installment payments should be undertaken until the family has a reserve fund equal to at least one week's pay; a month's is better." "The last installment should be paid before the purchased item is used up or worn out."

Such statements are sound, but they are not tailored to an individual family. They are usually based on average family spending or on the working experience of financing agencies that deal with many families. Included among the many who make up the average is a wide range of individual cases. Some are younger families with better prospects of income increase; others have steadier jobs; some have better health or more skills; some are in a sounder debt position or have assets to draw on; some might be called house proud, others automobile enthusiasts; others are more willing to make different sacrifices; and many other special conditions could be mentioned.

Reasons why "recommended" or "normal" budgets, even if prepared by experts or based on experience of the "average" family, cannot be expected exactly to fit the needs of an individual family were discussed in section II.

Constructed food budgets.—More scientific work has been done in the field of nutritional recommendations than in other areas of family spending, and helpful food buying guides and food budgets are available. Many farm and city families have planned their food according to suggestions in publications issued by the U.S. Department of Agriculture. Many social welfare agencies, both public and private, base their food allotments on these budgets. The USDA's food plans make suggestions in terms of broad groups of food, to

allow for differences in family preferences and variety in menus. They are available at several different cost levels and are for different sex-age groups so that family totals may be made.

Some recent publications on food budgets are listed on pages 49–50.

Constructed budgets for all classes of expense.—Aside from food needs and basic sanitary requirements for housing, the experts are the first to admit the scarcity of fundamental scientific facts upon which to base recommendations or to define an "adequate level of living." The experts work chiefly from data for average families that reflect accepted customary standards and the income levels, age and composition, location, occupational, and other special characteristics of the particular families included within the "average."

Many of the "constructed budgets" are defined only for a family of one specified size and age composition. These budgets are not designed as models to which families should mold their spending. They are useful chiefly to teachers, social workers, and administrators to indicate the kinds, quantities, and cost of goods and services which meet specified standards and reflect consumers' choices at certain income levels.

The U.S. Department of Labor has developed a City Worker's Budget, for a family of four, based on nutrition requirements, housing standards, and spending of urban families (p. 51). A budget that provides a comparable standard of living for a retired couple, both of whom are 65 years of age or over, living in an urban area is also available (p. 51).

The Community Council of Greater New York prices a low-cost budget for self-supporting families in that city (*1*). This budget may be adjusted for families of varying age, sex, family status, and employment status.

The City Worker's Budget and the Budget for a Retired Couple provide for food based on the U.S. Department of Agriculture's food budgets. These in turn meet the recommended dietary allowances of the Food and Nutrition Board of the National Research Council. In translating the NRC nutrients into foods at different cost levels, average family consumption patterns are taken into account. The two Bureau of Labor Statistics budgets provide for housing standards of the Federal Public Housing Administration and the Public Health Administration.

Experience of other families.—Though what is good spending for one family may not necessarily be good for another, many families find it stimulates them to compare their planning with that of other families in somewhat similar circumstances. Information on what other people spend for food, clothing, and other things needed for living may help families to avoid mistakes, like paying so high a rent or such large installments on a car that not enough is left for other important needs.

Facts about the spending of other families are especially useful to new families and those with no satisfactory spending records. Newly married couples may find helpful the records of friends who have recently begun housekeeping.

People find more meaning in the practices of other families if the place of residence, income, family size, and age are like their own. Data on average spending patterns of a cross section of American families, grouped according to some of these key characteristics, are presented in section VI.

Judging a Spending Plan on Its Merits

For a certain family at a certain period, there is some approximately "right" or "most reasonable" portion of income to assign for a certain type of expense. This is not the figure in some magic or recommended budget; rather, it is the one that emerges from the family's own spending plan—the amount available for that purpose when other more important needs have been met. Some families discover the "right" amount expensively and stumblingly only by trial-and-error spending. They could find it more quickly and surely by the pencil, paper, and thinking process described earlier. They may test it by checks such as those discussed here that make sense to the family.

How the spending pattern looks as a whole.—Following are some questions the family may ask itself regarding the spending pattern:

(1) How well does the plan balance present and future and take care of past debts? (a) What portion of the planned spending total are the set-asides for emergency or planned future needs; (b) how much is for past debts; (c) what kind of present living is left after (a) and (b) are met? Would changes in the proportions these three take of our total spending improve our living pattern?

(2) Have all of the important family aims been provided for? (3) Is the plan lopsided at certain spots? (4) What are the items that are putting on the "squeeze"? (5) Are the requirements of one or two members taking an undue share of the total? (6) Are the nibbler items taking more than they are worth? (7) What are the important major purchases slated for the year? (8) Should some of the priorities or ratings assigned to certain needs be further revised? (9) Should the time for undertaking some of the big expenses be changed? (This is one way of changing their priority.)

Comparison with the family's past spending.—Its own past experience is usually the chief clue to the values a family sets store by and what it has learned about meeting its needs. Perhaps the record can be improved, but it gives a benchmark for judging.

Last year's spending, however, should withstand criticism before it can be fully relied on as a yardstick for the new plan. How does it stand up under the preceding questions? (1) What were the family goals last year and how did the expenses contribute to them? (2) Which purchases were more successful, more valued by the family, which less so? (3) Did the family get ahead last year or go in the red as shown by the figures? (4) Did it accomplish what it wanted with its money; if not, why not? (5) Where would the family like to see changes?

If the answers are generally satisfactory, the new plan may be closely patterned on last year's spending. Wherever the answers are unsatisfactory, the family has the opportunity, in its new plan, to improve the situation to the best of its ability.

Is the plan realistic and flexible?—A good plan should be a suggestion and guide, not something to follow slavishly. In fact, the plan is not likely to be used long if the family considers it an arbitrary dictator.

There is no merit in a spending plan that is impossible for a family to live up to, no matter how wonderful the plan might be for somebody else. A plan that is too rigid may only invite defeat.

Even though careful thinking produces a practical and useful plan, life is too uncertain and wants are too changing for families to map out exactly all spending far in advance. Important things may be overlooked; all the facts about prices may not be known at the time of planning; emergencies beyond those provided for may arise; a major change in requirements may occur. If the need arises, the family with a good basic plan is in a better position to make wise changes than is one that has done no planning.

Section IV.—Carrying Out the Spending Plan

Once a fairly firm spending plan has been shaped up, the family is ready to try it out in actual spending.

A Home Office Center

Success in carrying out the spending plan may depend on simple things—such as having handy in a regular place a notebook or conveniently ruled pages and pencil, a spindle or clip to hold receipts and jottings of recent cash expenses, to be entered or totaled later. A good light helps. Also a place to file papers—not only bills and receipts but a safe place where the important papers—bankbooks and inventories of various types of possessions—are kept. Here the family financial plan, written down, should be readily at hand. Keeping all these things in one place makes the job easier and more efficient. It may be a special desk and file cabinet in the kitchen or family room. It may be just a dresser drawer or a homemade shelf with a metal box and a clothes pin for papers. Valuable papers, such as insurance policies, record of bonds, and social security numbers may be kept in a bank safety deposit box.

Dividing Up the Jobs To Be Done

To carry out the plan is a joint process that can rarely be the sole responsibility of any one member. Nevertheless, some parts of the job may be done more efficiently, or pleasurably, by one family member than another. Just who shall do certain jobs at various stages of carrying out a spending plan will depend on a number of things.

Some tasks may be assumed by one or another family member by mutual agreement arrived at quite informally. In other families, there may be careful decision about delegating certain duties.

Selecting the Recordkeeper

Perhaps there is one person best equipped to be the family treasurer or bill payer. The same or another person could keep the accounts or records—one for the automobile, another for the food and housekeeping, still another for the insurance and taxes, for example. A high school student may like to summarize his own expenses and perhaps a segment of family expenses like clothing, or car upkeep. The husband or the wife may prove to be the person with greater interest, ability, or time. Whoever does the recording will, of course, need information and cooperation from all the others in the family. The summaries are a family affair that point up the success or lack of it in progress toward family goals.

Gathering Facts

A wide variety of consumer information can aid in getting the most from a dollar. Certain family members may look up facts on adequate diets and methods of storing and preparing foods. Others may check on desirable health practices; functional house design; usefulness and durability of fabrics and garments; selection, care, and safety of household equipment; performance of automobiles; comparison of price and quality of various grades at various outlets; difference between cash and credit prices; credit charges on various forms of installment and budget accounts and contracts; comparative costs of borrowing money from various sources, as banks, credit unions, small loan companies, dealers; advantages and disadvantages

of various types of insurance, savings, and investment programs; and many other helpful topics.

These facts can be gleaned from many impartial sources of consumer information. The U.S. Department of Agriculture has publications on food shopping and cooking, health, clothing and fabrics, house and home, pest control, gardening, recreation, family finances, and emergencies. Other Government agencies have publications on special subjects of interest to consumers. State agricultural extension services have helpful bulletins. Private consumer research organizations and information councils have published results of quality and price tests and other performance data. High school and college textbooks on consumer economics and personal finance contain much helpful material. Many newspapers carry a once-a-week report on food supplies reaching the markets that show which items are good buys and which are scarce and expensive. Newspapers, women's magazines, and some trade journals carry informative articles.

Doing the Shopping

The job of shopping for all the articles and services a family uses in a year is usually divided among the members. Their interests, maturity, time available, and access to places of purchase all have a bearing. Young children may learn by buying a few simple items at the drug or food store. The wife may do most of the food buying, and select the household supplies and much of the clothing; the husband may attend to the car and dwelling maintenance, insurance, and taxes. With the increasing number of working wives and large families, and the convenience of supermarkets, many men help with the buying of food as well as of household appliances. Many women have a say in selecting the new car. Teenagers are often responsible, under tactful general guidance and within set limits, for most of their own clothing selections. To have included everybody old enough in the planning stages helps to coordinate these later buying decisions.

Occasional family shopping trips or studies of advertisements and mail-order catalogs will help to keep all members aware of qualities and prices available and choices that can be made within the limits of the general plan.

Keeping Accounts and Records and Handling Money

The heart of success in carrying out a spending plan is periodic checking to see that the dollars are really bringing in what the family wants most. This means comparing the total of money spent with the amounts planned. It also requires some system or planned methods of separating money for current spending and for reserves and payment of debt.

The envelope method.—Some people who shy away from figures may find the envelope or purse method the simplest way to live within their plan. At the start of the week, month, or pay period, they put into different envelopes, boxes, or coin purses, the amounts to be spent for specific purposes, such as: "Food and house keeping"; "rent and utilities"; "lunches, transportation, and pocket money"; and so forth, as well as "reserve for big wishes or needs" and another "reserve for emergencies." They consider it a game or a challenge to come out without having to shift from one to the other. Anything left in the other envelopes at the end of the period can be transferred to the reserve envelopes and from there into a bank account or other place of safe deposit.

On the other hand, if the money in one envelope or purse gives out before the end of the period, someone or ones must decide whether to—(1) Go without any further purchases in that sector till the next income period; (2) "borrow" from one of the other envelopes, which means cutting planned expenses in the sector "borrowed" from; (3) dip into the "emergency" or "big need" reserves or draw on savings, if any; (4) borrow; or (5) buy now on credit and pay later.

If the decision is to borrow (4) or to buy now on credit (5), another envelope or purse must be provided in the future into which a still greater sum of money for repayment must go. While postponing payment may temporarily seem to solve the problem, the borrowing or credit-using family gets less—though different—goods and services for the same amount of money in the end than does the cash-paying family. When it uses the envelope method over a period of time, it can see more clearly what it is sacrificing—what other envelopes it has to take from and how deeply—in order to fill up the "payments due" envelope.

If the decision is to borrow from one of the other

envelopes (2) or to dip into reserves (3), it may be that the budget plan is not realistic, and should be revised; next month, perhaps the amounts put into the envelopes should be somewhat different.

If, however, the budget plan has been fairly well tested, such revisions should become less necessary and the question of "borrowing" from other envelopes should have to be faced less often. When it does arise, the decision can more often be to make no further purchases (1) without too great inconvenience or actual sacrifice.

There are obvious disadvantages to the envelope method. There is the danger of theft or mislaying of cash left lying about the home. There is also the inconvenience of not having the right envelope or purse at hand when a purchase has to be made. If these problems can be solved, however, it does afford an easy way to know financially what has been accomplished and what sacrificed in each time period. A sheet or notebook showing the amounts used each period from each envelope or purse requires very little work and provides an excellent record of financial achievement.

The checkbook method.—Many families find a joint checking account works better than assigning specific sums to one member or putting them in envelopes. They pay bills and draw cash as needed to meet their requirements within agreed-upon limits. They can see where they stand by a periodic review of checks written during a current period and of changes in bank balances and bills owing. Such a summary made, say, once a month can give a good overall picture, although it may fail to show where cash went. This gap may be filled by keeping receipts for cash purchases and totaling them.

Savings account plus checkbook.—Some families use a savings account for reserves and set-asides for such things as taxes and other expected large expenses of the year, and a checking account for the monthly and weekly needs. A second savings account for permanent savings or for accumulation until specified large wishes can be met helps keep funds straight and sets temporarily unused funds to earning interest.

Tallying or recording expenses.—Some people may wish a detailed tally of at least their cash expenses, to see where the money goes. A simple notebook ruled off like the following form or in various ways may be most convenient, especially for short control periods, to see what and how much are the nibbler items. A column for amounts received may be added by people whose daily income varies.

Other families may find they can more easily make a really satisfactory periodic reckoning if they tally all purchases as they go along, whether these are made by cash or check, by deduction or charge. The following form can also be used for such entries if desired.

Form for Daily Income and Expense Record

Year: 19__

Date	Item	Amount received	Amount paid
	Total...........	$____	$____

A family may like to use a form on which it can easily add up totals for the same categories or sectors shown in its general plan, or for the sectors in which it is particularly interested. The form below may easily be ruled off in an inexpensive notebook, perhaps looseleaf for greater flexibility. The account keeper would allow spaces for daily or occasional entries and totals for the month or period of concern. A family may write in the names of those categories on which it specially wants to check, and lump everything

Form for Expense Record by Categories

(Enter daily, or from time to time as most convenient)

Date	Item	Amount paid for			
		Category *Example: Food at home*	Category *Example: Housing maintenance and operation*	Category *Example: Automobile upkeep, operation, other transportation*	Category All other
		$____	$____	$____	$____
	Total.....	____	____	____	____

else under the "all other" category. If more space is needed for additional categories, two sheets or wide sheets with columns ruled off may be used. Usually, it will be easier to set up at the beginning a column for each subgroup for which a total will be desired than to pick out later and make totals for several subcomponents within the "all other" column.

The recordkeeper may prefer to purchase a readymade account book offered by State extension services or one carried by stationery or bookstores; or supplied by a bank or other financial institution. He may adapt them to his family's particular requirements or develop his own forms.

At a convenient time, such as when he returns home or right after supper, each member may report or record his day's expenses or leave a note on file. If funds are divided so that each person has certain sums, he may give to the keeper of the accounts once a week, or at such times as found best, a summary of where they went. For some kinds of spending control, it may be enough merely to keep track of the totals spent by each member. An "allowance" or "food fund" or "food and household purse" may be recorded as such with no accounting of its detailed use, if the effort required for such detailing is not warranted.

Summary of Estimates or Records

Just keeping a fine lot of neat figures, however satisfying this may be to some people, is not the purpose of estimating or recording family expenses. Their entire value lies in a critical examination of the composite picture they show and in comparing actual results with advance plans.

Handling Reserve Funds—Management of Longrun Financial Program

The central problem of a family's longrun financial program is how, most economically, to have sufficient funds available when needed. Insurance to cover certain risks and emergencies, and planned set-asides were discussed in the planning section.

Set-asides may accumulate in a special checking account or in a savings account. They may be used to purchase U.S. Government savings bonds, shares in Federal credit unions or credit unions meeting State legal requirements, or deposited in federally insured savings and loan associations. They may be used to purchase State or municipal bonds or high-grade corporate bonds or stocks, or they may be invested in real estate or farm or other business.

In deciding which investment and insurance program best meets its needs, a family should give considerable weight to factors such as the following: (1) Comparative cost of providing a specified future sum by several methods; (2) safety of principal; (3) rate of return—amount of interest, dividends or profits earned; (4) cashability—rapid availability if needed for emergency; (5) amount of management attention—freedom from care of supervision of the investment; (6) hedge against inflation. For some families one of these considerations, for other families other ones, may be most or more important at certain periods.

Section V.—Evaluation

What are the "right" decisions? Is it "better" to spend money for a new car or a year of college; for a past-due bill or a new winter coat? How flexible should a spending plan be? To such questions of evaluation, no single answer is always suitable.

A spending plan is only an instrument whose performance can be judged. The family can and should make changes at the points it finds unsatisfactory. The plan is not sacrosanct. It must meet real needs and pass the tests of actual spending.

Helpful appraisal of a family's spending must always be on the basis of how the family sees its own needs. How can a family tell whether the goals it is working for are reasonable and desirable?

Some Criteria of Wise Consumption Goals

Although there are no completely accepted rules for what is good, one competent observer (*3, p. 393*), drawing on the "considered judgments of the most thoughtful in regard to desirable expenditures" has offered a list, which may be stated in the following way.

Wise uses of time and money are those that will provide appropriate amounts of things—goods, facilities, means—for furthering or securing:

1. Health and vigor—and for children, optimum growth.
2. Education and training of children, and continuing education of adults.
3. Individual participation in such creative activities as painting, drawing, music, sports, dancing, handicrafts, dramatics, gardening, research, imaginative writing—or individual enjoyment of such creations of others.
4. Beauty inside and outside the home, and attractive personal appearance.
5. Friendly and affectionate contacts with other people.
6. Fun and play.
7. New experience in connection with people, places, things, and ideas.
8. Rest and relaxation.

9. Order and harmony in the routine of satisfying family needs; cut in time and effort costs of unenjoyable tasks involved.
10. Housing and equipment for the social and other activities that go on in the home and for individual privacy.

Such a list focuses on the ends for which consumers' goods and services are wanted.

The most basic check of a family's spending plan asks: Are the goals that underlie the plan those the family really needs and wants? A review of the plan in the light of the foregoing list may give an answer or suggest changes.

If Spending Was Quite Different From the Plan

As the family looks over what it received for its money last year, it may notice some important things it did not get. If spending was quite different from the plan, the family may well ask, where and why? In answering the why's, the family may see its way to switches in spending that will improve another year's performance.

If the difficulties seem to lie in carrying out the plan, rather than in the plan itself, the chief need may be for greater self-discipline and better management. The family may need to work more on devices to check where and how the money is going and more on attempts to win wholehearted cooperation from every family member concerned. It may require new ways of reminding members to avoid impulse spending, new methods to avoid overcommitment. Family conferences, some changes in assignments of duties, new ways of handling funds, of recording or analyzing expenses, new practices in shopping may help.

Excessive Past or Future Spending

The family with a consistent record of never being able to catch up with bills probably has excessive debt. Such a family may have overspent in trying to meet too many or too ambitious needs too soon.

It has just two basic ways out—either to increase the income, or to make substantial improvements in spending efficiency. Until the family has brought its debts down to a more reasonable level, it may need to live on a good combination of the cheapest possible nourishing foods and cut other current costs. Reduction to such a debt level should release committed funds to bring up current living and to get ahead.

Another family may pride itself on keeping bills paid. It may have few debts or only those it retires rapidly, and have substantial savings in various forms. This family might ask: "Are we achieving this in addition to good present living, or at the expense of it? Are we pinching vital elements out of our current living, being overly parsimonious because of fear of dependency, or some compulsive need to pile up assets?" The overly saving family whose current living fails to measure up might be well advised to relax its set-aside ambitions enough to permit such current spending.

How the Family Feels About Planning and Its Financial Achievement

Lastly, in evaluating its experience with a spending plan, the family may consider: How do our several family members feel about the planning experience? Has it helped to bring tolerance, pulling together, and self-control? Were our discussions held in an impartial, friendly manner? Did we apply the yardsticks fairly? Did our attempt to follow a plan bring important goals nearer within practical reach? If not, where were the shortcomings?

Though all may not have worked out perfectly, the family that answers these or similar questions honestly is probably well on the way to successful family financial management. It can expect further improvement if it continues its planning efforts and its critical appraisal of spending results. The best criticism will not be unfriendly nagging but cooperative seeking of loopholes to plug and of ways and means for better success in reaching what the members value most highly.

Section VI.—Expenditure Patterns of Other Families

Family spending patterns are helpful as a clue to what families consider important in their living. Though no two families use their incomes in exactly the same way, many families find it useful to know how the "average" family spends. A word of warning, however: The family trying to improve its money management should not pattern its spending on such averages, because averages reflect both good and poor management in the degree to which they occur.

One way of examining expenditure data is to look at the dollars spent for food, shelter, medical care, personal insurance, savings, and the other items. Another is to look at the proportion of each dollar that goes for each of the various items. The latter sharpens our views of the relationship of the various parts to each other. Likewise, we can see more readily what shifts in spending are made by families when circumstances change; that is, when income increases or decreases, the family grows or diminishes. This kind of summary of family expenditures is referred to as the pattern of spending (chart 1).

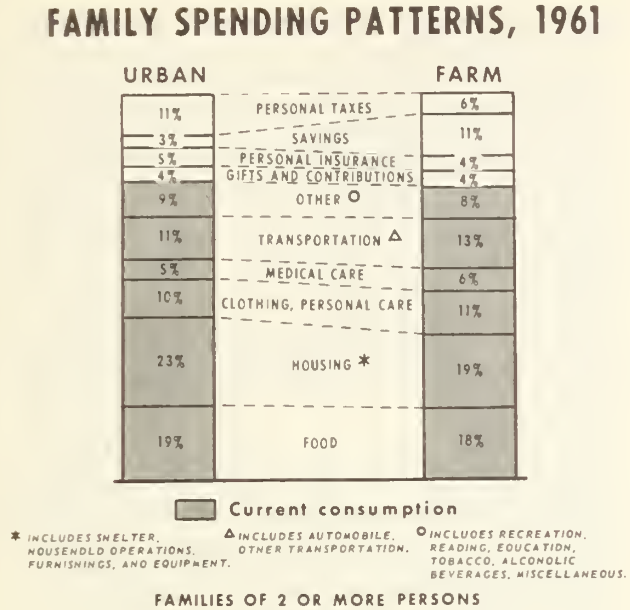

CHART 1

Sources of Data Used

The data discussed in this section, except where otherwise noted, are from the 1960–61 Survey of Consumer Expeditures (*5*, *6*, *7*, *8*, *10*) and some unpublished data. This survey provides information on the receipts and disbursements of urban, rural nonfarm, and rural farm families. Data are given on expenditures for current consumption; net savings; outlays for personal insurance, gifts and contributions, and personal taxes; and income.

The tables in this section show the uses made of family funds and the sources from which they were drawn. Outlays in the major sectors of family spending and the main sources of funds are shown in dollar amount. The major sectors are also shown as percentages of total spending, together with the principal categories of the largest sector, current consumption. Because families are generally unable to recall their finances for a year with complete accuracy, receipts and outlays do not balance precisely. The difference is shown as a source of money paid out because outlay generally exceeds receipts. (When it does not, the difference is shown as a negative amount.)

Families have been grouped by the size of their money incomes after taxes have been deducted.

Definitions

The terms used in the tables are defined as follows:

Money used or saved.—The total of the five sectors shown: Personal taxes, net savings made, personal insurance, gifts and contributions, and current consumption.

Personal taxes.—Federal, State, and local income taxes, poll taxes, and personal property taxes.

Net savings made.—Amount by which savings made and debts paid exceed savings used and debts made.

Personal insurance.—Direct payments, or deductions from pay, for life, endowment, and annuity insurance; liability insurance; fraternal, union, and other mutual aid insurance; disability insurance; social security; railroad, Government, and other retirement systems.

Gifts and contributions.—Cash contributions to persons outside the family (including alimony) and to welfare, religious, educational, and other organizations; expenditures for birthday, Christmas, and other gifts and services to persons not in the family.

Current consumption.—Cost of all goods and services for family living bought during the survey year, whether or not paid for in full. Consumer durable goods such as automobiles and household appliances are considered as consumption items, but purchase and sale of dwellings are considered as changes in assets. Financing charges and interest on installment and other credit purchases, shipping and delivery charges, and sales and excise taxes are included. Discounts and trade-in allowances are deducted from the total price.

Food.—The total includes the sum of the two components shown.

Food at home.—All food bought to be served at home or carried from home in lunches.

Food away from home.—Meals bought at restaurants, cafeterias, boardinghouses, and other eating places; between-meal snacks such as soft drinks, candy, coffee, and ice cream bought and eaten away from home. Food away from home also includes the value of meals received as pay (or at no cost) on the job.

Tobacco.—Cigarettes, cigars, pipe tobacco, pipes, lighters, and all other smokers' supplies.

Alcoholic beverages.—Beer, ale, liquors, and wine served at home or consumed in restaurants, bars, and other eating and drinking places when purchased separately from meals.

Housing.—The sum of the three components shown.

Shelter, including fuel, light, refrigeration, and water.—Expenditures on "off-farm dwellings" include rent, special fees, bonuses, and commissions paid by tenant families; property taxes, insurance, mortgage interest payments, special assessments, ground rent, and settlement charges paid by owner families. For "all dwellings," includes all types of repairs and maintenance paid for by the occupants. For "farm dwellings," a share of the taxes, insurance, and mortgage interest payments paid on owned farms and rent on rented

farms has been allocated to family expense. Lodging away from home and amounts spent on owned and rented vacation homes are also included. Includes expenditures for coal, wood, kerosene, fuel oil, and other solid and petroleum fuels, gas, electricity, water, sewage disposal, garbage and trash collection, and food freezer rentals. If part of the dwelling was rented out or used for business purposes, a proportionate share of expenses were excluded.

Household operations.—Expenditures for laundry and cleaning supplies; household paper products; laundry sent out; cleaning of rugs and draperies; coin-operated laundry and cleaning machine service; diaper service; wages, social security payments, transportation, gifts, and tips for domestic help; telephone and telegraph service; repairing and reupholstering of furniture; repairing and servicing of appliances and equipment; moving, freight, and express charges; postage and stationery; candles, matches, holiday decorations and flowers for the house; flower and lawn seed, fertilizer, sprays, and other outdoor household items.

Furnishings and equipment.—Expenditures for household textiles; furniture; floor coverings; kitchen, cleaning, and laundering equipment; demountable air conditioners, dehumidifiers; sewing machines; china, glass, and tableware; premiums paid on insurance for personal property not covered by a policy on the dwelling; lamps and light bulbs, fans, clocks, typewriters, luggage; garden and lawn tools and lawn mowers; and rental of furnishings and equipment.

Clothing (including upkeep).—Expenditures for all outerwear; underwear and nightwear; hosiery; footwear; hats, gloves, handbags and purses, umbrellas, handkerchiefs, belts, jewelry, watches, and other accessories; materials for making of apparel; paid help for dressmaking and tailoring; drycleaning, pressing, dyeing, shoe repairs, shines, and other services; garment storage; watch and jewelry repairs, clothing rentals.

Personal care.—Expenditures for all services at barbershops and beauty parlors; toilet soaps and toilet articles; shaving soaps and shampoos; toothbrushes, toothpastes, and mouthwashes; cosmetics, perfumes, and deodorants; supplies for home permanents; combs, brushes, razors, and razor blades; cleaning tissues; and other personal care items.

Medical care.—Payments (or deductions from pay) for all types of health insurance or plans providing prepaid medical or dental care; direct expenses for hospital rooms, nurses, ambulance service, X-ray and other laboratory tests; services of physicians, specialists, surgeons, dentists, chiropractors, and other practitioners; prescription and nonprescription drugs, vitamin and mineral tablets; services of nurses at home or care in a nursing home; appliances; and other medical care supplies and services.

Recreation.—Includes purchases of television, radios, phonographs, and musical instruments, repairs and parts; musical instrument cases and racks; admissions to movies, plays, concerts, sporting and other spectator events; toys; phonograph records and sheet music; cameras, films, and other photographic equipment; pets and pet food and supplies; licenses and supplies; hobbies; dues to special recreational clubs.

Reading and education.—Cost of newspapers, magazines, and books; book rentals and library fees and fines; school tuition and fees; school supplies and equipment; music, dancing, and other special lessons.

Automobile.—The cost of purchase and operation, including gasoline, oil, and lubrication; tires, tubes, and batteries; repairs and parts; tolls and parking fees; insurance, licenses, registration fees, and taxes. If car was used partly for business (including farm) purposes, only family share of expense is included. Includes trucks, if used for family purposes.

Other transportation.—Local streetcar, bus, and taxicab fares; car pools and rental of automobiles and trailers; fares on trains, planes, ships, and intercity buses; tips; purchase, upkeep, and rental of bicycles, motorcycles, airplanes, and boats.

Other expenses.—Includes expenses for tours, summer camps and so on, out of the city, reported as a lump sum; interest on loans other than mortgages and business loans; bank service charges; funeral expenses for family members; legal expenses; money lost or stolen; expenses for raising food for family use; money allowances to children; and other expenses not allocated elsewhere.

Income (before taxes).—Includes total money income of all family members from wages and salaries (including tips and bonuses) after deductions for such occupational expenses as tools, special required equipment, and union dues; net income from self-employment (including farming); and income other than earnings such as net rents, interest, dividends, Social Security benefits, pensions, disability insurance, trust funds, small gifts of cash, regular contributions for support, public assistance, or other governmental payments. The value of food and housing received as pay are counted as money income and as expenditures. Farm income adjusted for change in inventory of crops and livestock.

Other receipts.—Includes inheritances and occasional large gifts of money less taxes, legal fees, and other expenses required to obtain such receipts; and net receipts from the lump-sum settlement of fire and accident insurance policies. Gifts and inheritances in the form of real estate, securities, and other property are not included unless they had been sold during the survey year.

Net savings used, debts made.—Amount by which savings used and debts made exceed savings made and debts paid.

Account-balancing difference.—The difference between reported total receipts and disbursements. Reported receipts usually are less than reported outlays and the balancing difference must be considered a source of funds to explain outlays. When reported receipts are greater than reported outlays, the balancing difference is shown as a negative amount.

Family size.—Based on equivalent persons with 52 weeks of family membership equal to 1 person, 26 weeks equal to 0.5 person, and so on.

Averages

All averages shown are rounded to the nearest $10, and percentages have been rounded to add to 100.

Stability of General Patterns in Surveys at Different Periods

Nationwide studies covering all categories of the family budget are not available annually or even as often as every 5 years. Because of their high cost in both time and money, they are made only at occasional intervals. Although one would like to see current data for each succeeding year, the intervals between major studies have been more like 10 years and sometimes longer.

The spending patterns of urban consumers in 1950 and 1961 are compared in table 3. These estimates show that families at similar income levels continue to spend in much the same pattern.

TABLE 3.—*Comparison of spending patterns of urban families with money income (after taxes) of $5,000 to $6,000, United States, 1950 and 1961*

Item	1950	1961
	Percent	*Percent*
Money used or saved	100	100
Personal taxes	8	9
Net savings made	------	(1)
Personal insurance	4	5
Gifts and contributions	3	4
Current consumption	85	82
Food	25	21
Housing	22	25
Clothing	10	8
Personal care	2	2
Medical care	4	5
Recreation, reading, and education	5	4
Automobile	12	12
Other transportation	1	1
Other expenses [2]	4	4

[1] Less than 0.5 percent.

[2] Includes tobacco, alcoholic beverages, and miscellaneous expenditures not listed elsewhere.

Source: U.S. Bureau of Labor Statistics (*5*, *9*).

For example, in the 2 years, urban families with incomes between $5,000 and $6,000 used about the same proportion of their total money used or saved for personal taxes, personal insurance, gifts and contributions, and most of the categories of current consumption. Only in two categories of current consumption did sizable shifts occur. There was a decrease of 4 percentage points in the proportion used for food and an increase of 3 percentage points in housing.

Such factors as age and education of head, size and type of family, level of income, and place of residence continue to account for comparable differences as new studies are made.

It is the rather stable patterns of spending that make expenditure data useful, even when they are not up-to-date. Accordingly, the data pertaining to 1961 shown in tables in this section should continue to be useful for several years.

Use of Survey Data by Individual Families

When a family has developed a spending plan, it may gain confidence in its decisions if the plan is compared with the actual spending patterns of similar families and more thought given to those parts that depart from the average. To do this, the family will pick out the data for families most like it in characteristics. By applying the percentage distribution of money used or saved by these families to its own estimate of money available for use or saving, the planning family will find the spending pattern at its own income level. Whether or not the family changes its plan to make it more nearly like the average, this procedure will give them another chance to think through its individual needs and preferences.

Another use of survey data for an earlier date can be made by a planning family or its adviser. They may prefer to ask the question, "How much money will it take at today's prices to buy about the same kinds of foods" (for example) "that the families surveyed bought in 1961?" Suppose comparable survey families spent, on an average, $1,130 for a year's food. To find the amount that must be added to our figure of $1,130 the first step is to find from the index numbers the percentage change in food prices [2] from the date of the study to the present or most recent date. Next, the $1,130 is multiplied by that percentage. The result is the amount to add to the $1,130 to answer the original question—the money required at today's prices to

[2] Price changes are measured for urban families by the Consumer Price Index reported at regular intervals by the U.S. Bureau of Labor Statistics; they are measured for farm families by the Statistical Reporting Service of the U.S. Department of Agriculture in the Index of Prices Paid by Farmers.

buy food similar to that purchased by the families surveyed.

Estimates can be made in the same way of the recent cost of clothing and other categories of expense for which consumer price indexes are published. Following are two examples:

CLOTHING (including upkeep)

Estimated amount spent by 4-person urban families in 1961 with incomes of $5,000–$5,999	$600.00 (table 6)
BLS Price Index for Clothing (1957–59=100):	
In year 1961	103.0
In December 1967	116.8
Percentage increase in index from 1961 to December 1967	13.4
13.4 percent of $600.00	$80.40
$600.00+$80.40	$680.40
Equals amount of money required at December 1967 prices to buy clothing similar to that purchased in 1961 by the urban families surveyed.	

HOUSEHOLD OPERATION

Amount spent in 1961 for household operations by 4-person farm families with incomes of $5,000–$5,999	$190.00 (table 6)
SRS Price Index for Household Operation (1910–14=100):	
In year 1961	211
In December 1967	234
Percentage change in index from 1961 to December 1967	10.9
10.9 percent of $190.00	$20.71
$190.00+$20.71	$210.71
Equals the amount of money required at December 1967 prices to pay for household operation that cost $190 in 1961.	

Because families have to cut down when prices go up and may cut more on some things than on others, this method is only partly satisfactory. For many planning purposes, however, it has qualified usefulness.

Spending by Urban, Rural Nonfarm, and Farm Families

The average spending in 1961 of urban, rural nonfarm, and farm families of two or more persons is shown in table 4. Farm people are spending more like rural nonfarm and urban people than they used to. The major sectors of outlays, however, still take different proportions of the total in the three population groups. Personal taxes in 1961 made up a smaller share of the total for farm families because of their lower incomes and larger family size. Despite their lower income level, farm families saved a much larger proportion, investing it in the operation of their farm business than the other two groups. This is typical of all employers managing their own business. Also like others in business for themselves, they put less into personal insurance. Farm families spent about the same proportion for gifts and contributions as the urban and rural nonfarm families but a slightly smaller proportion for current consumption as a whole.

Among the categories of consumption, the greatest difference occurred in the proportion spent on shelter. Farm families spent less than urban families on shelter because, in general, their housing tends to be not as good. Their tax rates are usually lower (but insurance rates may be higher). A larger proportion of the farm families, also, are owners paying ownership expenses which are lower than rent on a comparable dwelling.

Even though farm families raised a substantial part of their own food, they spent almost as large a proportion of their income on food as did the nonfarm families in 1961. Larger families and lower incomes accounted for some of the difference. The retail value of food produced at home for home use in 1961 was $460 for farm, as compared with $66 for rural nonfarm, and $7 for urban families (*7, 8, 10*).

Farm families spent a slightly larger proportion than urban and rural nonfarm families for clothing and medical care. This is in part related to their lower cash incomes and to their larger family size. Farm families also tend to pay more of their medical expenses directly. Many nonfarm families receive at least a part of their medical insurance as a fringe benefit from their employers.

Rural families, both farm and nonfarm, used a larger proportion of their income to purchase and operate automobiles than urban families. Families living in suburban and rural areas are more dependent upon their cars than families living in cities.

Income by Family Size

Income may remain the same while family size changes. Among urban, rural nonfarm, and farm families, however, average income in 1961 was larger in moderately large families than in either small or very large families. These survey findings are shown in table 5.

Spending at Different Income Levels

Spending patterns of families vary at different income levels. Expenditures in 1961 at selected incomes for four-person urban, rural nonfarm, and farm families are shown in table 6.

Generally speaking, the higher the income, the higher was the amount paid out for each of the five major classes of outlays—personal taxes, net savings made, personal insurance, gifts and contributions, and current consumption. Personal taxes rose most rapidly; consequently, in the percentage distribution of outlays, they took a constantly rising share as income increased. Current

TABLE 4.—*Comparison of spending patterns of urban, rural nonfarm, and rural farm families of 2 or more persons, United States, 1961*

Item	Urban	Rural nonfarm	Rural farm
	Dollars	*Dollars*	*Dollars*
Money used or saved	7, 770	5, 860	5, 030
Personal taxes	880	510	320
Net savings made	250	210	540
Personal insurance	370	270	210
Gifts and contributions	310	220	220
Current consumption	5, 960	4, 650	3, 740
	Percent	*Percent*	*Percent*
Money used or saved	100	100	100
Personal taxes	11	9	6
Net savings made	3	4	11
Personal insurance	5	5	4
Gifts and contributions	4	4	4
Current consumption	77	78	75
Food, total	19	19	18
Food at home	15	16	15
Food away from home	4	3	3
Tobacco	1	2	1
Alcoholic beverages	1	1	1
Housing, total	23	21	19
Shelter [1]	15	13	11
Household operations	4	4	3
Furnishings, equipment	4	4	5
Clothing (including upkeep)	8	8	9
Personal care	2	2	2
Medical care	5	5	6
Recreation	3	3	3
Reading and education	2	1	1
Automobile	10	13	12
Other transportation	1	1	1
Other expenses	2	2	2
Source of money paid out:	*Dollars*	*Dollars*	*Dollars*
Income (before taxes)	7, 460	5, 610	4, 920
Other receipts	110	70	100
Net savings used, debts made	--------	--------	--------
Account-balancing difference	200	180	10
	Persons	*Persons*	*Persons*
Average family size	3. 5	3. 8	4. 0

[1] Includes fuel, light, refrigeration, and water.

Source: U.S. Bureau of Labor Statistics (*7, 8*); U.S. Department of Agriculture (*10*).

consumption rose the least; as a result, it took a decreasing share as income increased. The shares going to net savings made, personal insurance, and gifts and contributions fluctuated slightly.

Within current consumption, sizable decreases occurred in the proportions spent on food and housing, although dollars spent in these areas increased. Household operations, clothing (including upkeep), recreation, reading and education, alcoholic beverages, and other transportation tend to take about the same proportion of the total regardless of the level of income.

On the average, rural nonfarm families had to have incomes of about $5,000 and farm families about $4,000 for their income to cover their ex-

TABLE 5.—*Average money income (before taxes) of urban, rural nonfarm, and rural farm families, by family size, United States, 1961*

Family size	Urban	Rural nonfarm	Rural farm
	Dollars	*Dollars*	*Dollars*
2 persons	6, 110	4, 410	3, 810
3 persons	8, 070	5, 670	4, 810
4 persons	8, 340	6, 820	5, [illegible]00
5 persons	8, 670	6, 760	5, 990
6 or more persons	7, 810	5, 870	5, 660

Source: U.S. Bureau of Labor Statistics (*5, 8*); U.S. Department of Agriculture (*10*).

TABLE 6.—*Spending patterns of 4-person families, by money income (after taxes), urban, rural nonfarm, and rural farm, United States, 1961*

Item	Urban					Rural nonfarm					Rural farm				
	$4,000–$4,999	$5,000–$5,999	$6,000–$7,499	$7,500–$9,999	$10,000–$14,999	$3,000–$3,999	$4,000–$4,999	$5,000–$5,999	$6,000–$7,499	$7,500–$9,999	$2,000–$2,999	$3,000–$3,999	$4,000–$4,999	$5,000–$5,999	$6,000–$7,499
	Dollars	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*
Money used or saved	5,560	6,630	7,880	10,210	14,010	4,230	5,320	6,370	7,900	9,830	3,450	4,120	5,110	6,220	7,180
Personal taxes	290	480	740	1,160	1,940	170	330	450	690	1,140	80	130	180	430	540
Net savings made	140	-------	100	470	640	-------	-------	110	540	300	-------	-------	580	710	680
Personal insurance	250	300	380	540	720	190	230	270	390	540	120	190	220	330	300
Gifts and contributions	140	190	250	370	490	80	120	240	260	310	120	120	170	260	280
Current consumption	4,740	5,660	6,410	7,670	10,220	3,790	4,640	5,300	6,020	7,540	3,130	3,680	3,960	4,490	5,380
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
Money used or saved	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Personal taxes	5	7	9	11	14	4	6	7	9	12	2	3	4	7	8
Net savings made	3	-------	1	5	5	-------	-------	2	7	3	-------	-------	11	11	9
Personal insurance	4	5	5	5	5	4	4	4	5	5	3	5	4	5	4
Gifts and contributions	3	3	3	4	3	2	2	4	3	3	3	3	3	4	4
Current consumption	85	85	82	75	73	90	88	83	76	77	92	89	78	73	75
Food, total	24	21	20	18	16	26	22	21	18	16	24	19	19	18	16
Food at home	21	18	17	14	12	22	19	18	15	13	21	16	16	14	12
Food away from home	3	3	3	4	4	4	3	3	3	3	3	3	3	4	4
Tobacco	2	2	2	1	1	3	2	2	1	1	2	2	1	1	1
Alcoholic beverages	1	1	1	1	2	1	1	1	1	1	1	1	1	1	(1)
Housing, total	26	24	22	20	19	23	24	20	22	22	24	22	20	18	17
Shelter [2]	16	15	14	12	12	15	15	12	13	13	15	12	12	10	10
Household operations	5	4	4	4	4	4	4	4	5	4	3	4	3	3	3
Furnishings, equipment	5	5	4	4	3	4	5	4	4	5	6	6	5	5	4
Clothing (including upkeep)	8	9	9	9	9	7	8	9	8	8	10	11	9	9	10
Personal care	3	3	2	2	2	3	2	3	2	2	3	3	2	2	2
Medical care	5	5	5	5	4	6	6	5	5	5	7	9	6	5	6
Recreation	3	3	4	4	4	3	4	3	3	3	2	3	3	4	3
Reading and education	1	1	2	2	3	1	1	2	1	2	1	1	2	1	2
Automobile	10	13	12	11	10	16	16	15	13	14	10	16	13	12	15
Other transportation	1	1	1	1	1	(1)	1	1	1	1	1	1	1	1	1
Other expenses	1	2	2	1	2	1	1	1	1	2	7	1	1	1	2
Source of money paid out:	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*
Income (before taxes)	4,780	6,020	7,490	9,720	13,940	3,700	4,860	5,930	7,430	9,540	2,690	3,660	4,670	5,960	7,140
Other receipts	310	90	100	90	30	160	130	20	140	40	80	10	210	180	40
Net savings used, debts made	-------	100	-------	-------	-------	60	70	-------	-------	-------	690	390	-------	-------	-------
Account balancing difference	470	420	290	400	40	310	260	420	330	250	−10	60	230	80	-------

[1] Less than 0.5 percent. [2] Includes fuel, light, refrigeration, and water.

Source: U.S. Bureau of Labor Statistics (7, 8); U.S. Department of Agriculture (10).

TABLE 7.—*Spending patterns of families in median income class (after taxes), by family size, urban, rural nonfarm, and rural farm, United States, 1961*

Item	Urban ($5,000-$6,000 income class)					Rural nonfarm ($4,000-$5,000 income class)					Rural farm ($3,000-$4,000 income class)				
	2 persons	3 persons	4 persons	5 persons	6 or more persons	2 persons	3 persons	4 persons	5 persons	6 or more persons	2 persons	3 persons	4 persons	5 persons	6 or more persons
	Dollars	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*
Money used or saved	6,380	6,600	6,630	6,610	6,060	5,090	5,460	5,320	5,340	5,150	3,680	4,060	4,120	4,100	4,000
Personal taxes	740	630	480	390	170	500	460	330	210	100	230	200	130	100	60
Net savings made	250	--------	--------	--------	--------	120	10	--------	230	--------	370	100	--------	--------	--------
Personal insurance	290	320	300	280	300	240	260	230	260	200	140	130	190	210	130
Gifts and contributions	320	190	190	180	140	270	130	120	140	120	200	170	120	230	90
Current consumption	4,780	5,460	5,660	5,760	5,450	3,960	4,600	4,640	4,500	4,730	2,740	3,460	3,680	3,560	3,720
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
Money used or saved	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Personal taxes	12	10	7	6	3	10	8	6	4	2	6	5	3	2	2
Net savings made	4	--------	--------	--------	--------	2	(1)	--------	4	--------	10	2	--------	--------	--------
Personal insurance	5	5	5	4	5	5	5	4	5	4	4	3	5	5	3
Gifts and contributions	5	3	3	3	2	5	2	2	3	2	5	4	3	6	2
Current consumption	74	82	85	87	90	78	85	88	84	92	75	86	89	87	93
Food, total	18	19	21	24	28	19	21	22	24	30	18	19	19	22	27
Food at home	15	15	18	21	25	16	18	19	21	26	16	16	16	19	23
Food away from home	3	4	3	3	3	3	3	3	3	4	2	3	3	3	4
Tobacco	2	2	2	1	2	2	2	2	2	2	2	1	2	2	2
Alcoholic beverages	1	1	1	1	1	1	1	1	(1)	1	1	(1)	1	1	1
Housing, total	23	22	24	25	26	22	23	24	21	21	23	23	22	22	20
Shelter[2]	14	14	15	16	17	13	14	15	12	13	15	12	12	11	11
Household operations	4	4	4	4	4	4	4	4	4	4	3	4	4	5	4
Furnishings, equipment	5	4	5	5	5	5	5	5	5	4	5	7	6	6	5
Clothing (including upkeep)	6	8	9	8	10	5	7	8	8	10	6	10	11	10	14
Personal care	2	3	3	2	3	2	2	2	3	3	2	3	3	2	3
Medical care	5	6	5	5	5	7	6	6	6	4	7	8	9	7	6
Recreation	3	3	3	4	3	3	3	4	3	3	3	3	3	3	3
Reading and education	1	2	1	1	2	1	1	1	1	1	1	1	1	1	1
Automobile	11	14	13	13	8	14	17	16	13	16	10	15	16	14	14
Other transportation	1	1	1	1	1	1	1	1	1	(1)	1	(1)	1	1	1
Other expenses	1	1	2	2	1	1	1	1	2	1	1	3	1	2	1
Source of money paid out:	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*
Income (before taxes)	6,220	6,100	6,020	5,900	5,690	4,960	4,970	4,860	4,750	4,640	3,720	3,660	3,660	3,580	3,520
Other receipts	150	250	90	40	20	110	60	130	--------	200	70	190	10	10	10
Net savings used, debts made	--------	40	100	300	110	--------	--------	70	--------	120	--------	--------	390	150	800
Account-balancing difference	10	210	420	370	240	20	430	260	590	190	−110	210	60	360	−330

[1] Less than 0.5 percent. [2] Includes fuel, light, refrigeration, and water.

Source: U.S. Bureau of Labor Statistics (*7, 8*); U.S. Department of Agriculture (*10*).

TABLE 8.—*Spending patterns of families in median income class (after taxes), by age of head, urban, rural nonfarm, and rural farm, United States, 1961*

Item	Urban ($5,000-$6,000 income class)					Rural nonfarm ($4,000-$5,000 income class)					Rural farm ($3,000-$4,000 income class)				
	25-34 years	35-44 years	45-54 years	55-64 years	65-74 years	25-34 years	35-44 years	45-54 years	55-64 years	65-74 years	25-34 years	35-44 years	45-54 years	55-64 years	65-74 years
	Dollars	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*
Money used or saved	6,560	6,430	6,590	6,660	6,060	5,300	5,540	5,120	5,210	4,670	3,740	3,880	4,180	3,800	3,560
Personal taxes	520	560	660	760	500	360	290	390	530	250	120	90	200	260	80
Net savings made		70		320	450	110	80		80					210	240
Personal insurance	290	330	310	300	210	250	250	210	250	170	190	160	150	170	80
Gifts and contributions	210	210	210	360	470	150	120	200	220	900	130	120	150	170	260
Current consumption	5,540	5,260	5,410	4,920	4,430	4,430	4,800	4,320	4,130	3,350	3,300	3,510	3,680	2,990	2,900
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
Money used or saved	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Personal taxes	8	9	10	11	8	7	5	8	10	5	3	2	5	7	2
Net savings made		1		5	7	2	1		2					6	7
Personal insurance	4	5	5	5	3	5	5	4	5	4	5	4	4	4	2
Gifts and contributions	3	3	3	5	8	3	2	4	4	19	3	3	4	4	7
Current consumption	85	82	82	74	74	83	87	84	79	72	89	91	87	79	82
Food, total	20	23	21	19	18	22	25	22	20	18	21	25	20	20	18
Food at home	17	20	18	16	15	18	21	19	17	16	19	20	17	17	16
Food away from home	3	3	3	3	3	4	4	3	3	2	2	5	3	3	2
Tobacco	1	2	2	1	1	2	2	2	2	1	1	2	2	1	2
Alcoholic beverages	1	1	1	1	1	1	1	1	1	2	([1])	1	1	1	1
Housing, total	27	23	22	21	25	22	21	21	22	20	28	21	22	21	22
Shelter [2]	16	15	15	14	16	13	12	13	14	12	16	12	13	12	14
Household operations	5	4	4	4	5	4	4	4	3	4	5	4	3	4	3
Furnishings, equipment	6	4	3	3	4	5	5	4	5	4	7	5	6	5	5
Clothing (including upkeep)	8	9	8	6	6	7	9	8	6	6	9	13	11	9	6
Personal care	2	3	3	2	2	2	3	2	2	2	2	3	3	3	2
Medical care	5	4	5	7	9	5	5	6	7	9	7	7	7	8	9
Recreation	3	3	2	2	2	4	3	3	3	2	3	3	3	2	2
Reading and education	1	1	2	2	1	1	1	1	1	1	1	1	1	1	1
Automobile	15	10	13	10	6	15	15	16	14	7	15	12	16	11	15
Other transportation	1	1	1	1	2	1	1	([1])	([1])	1	1	1	([1])	1	1
Other expenses	1	2	2	2	1	1	1	2	1	3	1	2	1	1	3
Source of money paid out:	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*
Income (before taxes)	6,010	6,080	6,190	6,180	5,960	4,860	4,840	4,880	5,060	4,650	3,580	3,580	3,720	3,780	3,500
Other receipts	50	70	130	200	110	10	200	230		30		10	60	30	290
Net savings used, debts made	250		300					30		270	160	270	390		
Account-balancing difference	250	280	−30	280	−10	430	500	−20	150	−280		20	10	−10	−230
	Persons	*Persons*	*Persons*	*Persons*	*Persons*	*Persons*	*Persons*	*Persons*	*Persons*	*Persons*	*Persons*	*Persons*	*Persons*	*Persons*	*Persons*
Average family size	3.8	4.1	3.1	2.5	2.0	4.0	4.9	3.6	2.7	2.2	4.4	5.5	4.5	2.8	2.7

[1] Less than 0.5 percent. [2] Includes fuel, light, refrigeration, and water.

Source: U.S. Bureau of Labor Statistics (*8* and unpublished data); U.S. Department of Agriculture *(10)*.

penditures. For urban families, the break-even point appears to be about $6,000, although the families with incomes between $4,000 and $5,000 showed a net savings.

Spending by Families of Different Sizes

The demands caused by larger family size resulted in current consumption taking 90 percent or more of total money used or saved among families of six or more persons in the median income class as compared with about 75 percent among two-person families. On the average, small families showed some net savings but large families added to their debts or drew on savings. Large families also spent considerably less than small families for taxes and gifts and contributions. These facts about the spending and saving of families ranging in size from two to six or more persons in the median income class (after taxes) are shown in table 7. The median income class was between $5,000 and $6,000 for urban, $4,000 and $5,000 for rural nonfarm, and $3,000 and $4,000 for rural farm families.

Expenditures for food and clothing were mainly responsible for the increases in consumption expenditures. In each urbanization the proportion of spending going for food was at least half again as high among families of six or more persons as among families of two persons and the proportion for clothing was about double. Among urban families of various sizes, increased spending on housing also tended to push up consumption expenditures. Most other categories of consumption were fairly stable regardless of family size.

Spending at Different Stages of the Family Life Cycle

Families feel more pressure on their resources for current consumption in the first three decades of the family life cycle than later. As the pressure eases in later years, families put more into gifts and contributions or savings. Table 8 shows differences in expenditures and savings in 1961 of median income families with heads at various ages.

Farm families in the median income class reached their peak in dollar amounts spent for current consumption when the head of the family was between 45 and 54 years old. This is after families have begun to shrink in size. Farm families whose heads were between 55 and 64 and 65 and 74 years were smaller and spent less than young families whose heads were between 25 and 34 years old. For nonfarm families, the peak in spending came about a decade earlier; that is, when the head was between 35 and 44 years. For urban families, it came still earlier, when the head was between 25 and 34 years old.

Among the individual categories of current consumption, furnishings and equipment were generally relatively more important for families whose heads were between 25 and 34 years than for older families. If the young family lived in an urban area, the automobile also took a larger share then. If the young family lived on a farm, shelter (including fuel, light, refrigeration, and water) took a larger share.

In the early middle years of the family life cycle, food, clothing, and personal care were more important for families than earlier. Expenses for the automobile took a slightly larger proportion of the budget when the head was between 45 and 54 years old than a decade earlier.

After the head of the family was 55 or over, medical care took a larger share of the budget. Urban and farm families whose heads were 65 and over spent a larger share for shelter than families in their middle years.

Income by Age of Head

In the discussion, based on table 8, income has been held constant over the family life cycle so that the effects of age on spending practices would appear more clearly. However, income is not likely to remain constant throughout the life of an individual family. Family income tends to rise in the early years of the family life cycle, to reach a peak in the middle years, and then to decline rather sharply as the head reaches retirement age. This fact is confirmed by the data shown in table 9 for 1961. The peak occurs in the same age group for rural nonfarm and farm families but in a later age group for urban families.

Other Factors

The region where the family lives (table 10), the education of the head (table 11), and the type of family (table 12) also affect the way the family spends its money. In table 10 data were limited to

TABLE 9.—*Average money income (before taxes) of urban, rural nonfarm, and rural farm families, by age of head, United States, 1961*

Age of head	Urban	Rural nonfarm	Rural farm
	Dollars	*Dollars*	*Dollars*
25–34 years	6, 660	5, 770	4, 810
35–44 years	8, 110	6, 660	5, 850
45–54 years	8, 450	6, 300	5, 380
55–64 years	6, 840	4, 920	4, 100
65–74 years	4, 540	2, 980	3, 610

Source: U.S. Bureau of Labor Statistics (*5, 8*); U.S. Department of Agriculture (*10*).

TABLE 10.—*Spending patterns of 4-person families in median income class (after taxes), by regions, urban, 1960–61, rural nonfarm and rural farm, United States, 1961*

Item	Urban ($5,000–$6,000 income class)				Rural nonfarm ($4,000–$5,000 income class)				Rural farm ($3,000–$4,000 income class)			
	North-east	North Central	South	West	North-east	North Central	South	West	North-east	North Central	South	West
	Dollars	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*
Money used or saved	6,670	6,500	6,890	6,450	5,960	5,160	5,240	5,070	3,800	4,260	4,110	3,900
Personal taxes	480	530	450	440	360	370	260	290	80	150	140	20
Net savings made	--------	80	--------	--------	--------	30	--------	90	--------	--------	--------	--------
Personal insurance	320	350	310	280	250	230	230	190	140	150	230	220
Gifts and contributions	180	180	250	200	160	80	180	60	170	100	140	140
Current consumption	5,690	5,360	5,880	5,530	5,190	4,450	4,570	4,440	3,410	3,860	3,600	3,520
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
Money used or saved	100	100	100	100	100	100	100	100	100	100	100	100
Personal taxes	7	8	7	7	6	7	5	6	2	4	3	1
Net savings made	--------	1	--------	--------	--------	1	--------	2	--------	--------	--------	--------
Personal insurance	5	5	4	4	4	4	4	4	4	4	6	6
Gifts and contributions	3	3	4	3	3	2	3	1	4	2	3	4
Current consumption	85	83	85	86	87	86	88	87	90	90	88	89
Food, total	25	21	19	21	21	22	24	16	17	19	19	23
Food at home	22	18	16	18	19	19	18	14	15	16	15	21
Food away from home	3	3	3	3	2	3	6	2	2	3	4	2
Tobacco	2	2	1	2	3	2	2	3	7	2	2	2
Alcoholic beverages	2	1	1	1	1	1	1	1	4	1	(1)	1
Housing, total	25	24	25	26	21	21	24	27	22	22	22	28
Shelter [2]	16	17	15	16	14	14	13	17	14	12	12	23
Household operations	4	4	5	5	3	4	5	5	5	3	5	3
Furnishings, equipment	5	3	5	5	4	3	6	5	3	7	5	2
Clothing, (including upkeep)	9	9	10	9	6	8	8	8	8	12	10	8
Personal care	3	3	3	2	2	3	3	2	3	3	3	3
Medical care	5	6	5	6	4	6	6	6	12	8	8	8
Recreation	3	4	3	3	4	4	4	6	3	4	3	2
Reading and education	1	1	1	2	1	1	1	1	2	1	1	2
Automobile	7	10	15	11	20	16	14	13	8	17	17	10
Other transportation	1	1	1	1	2	1	(1)	1	(1)	(1)	2	--------
Other expenses	2	1	1	2	2	1	1	3	4	1	1	2
Source of money paid out:	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*
Income (before taxes)	6,060	6,020	5,970	5,940	4,850	4,930	4,740	4,900	3,540	3,660	3,670	3,740
Other receipts	90	40	--------	230	170	--------	200	300	--------	--------	10	--------
Net savings used, debts made	70	--------	340	90	320	--------	100	--------	460	500	340	140
Account-balancing difference	450	440	580	190	620	230	200	−130	−200	100	90	20

[1] Less than 0.5 percent. [2] Includes fuel, light, refrigeration, and water.

Source: U.S. Bureau of Labor Statistics (*6, 8*); U.S. Department of Agriculture (*10*).

TABLE 11.—*Spending patterns of families in median income class (after taxes), by education of head, urban, rural nonfarm, and rural farm, United States, 1961*

Item	Urban ($5,000–$6,000 income class)				Rural nonfarm ($4,000–$5,000 income class)				Rural farm ($3,000–$4,000 income class)			
	8 years or less	9–12 years	13–16 years	Over 16 years	8 years or less	9–12 years	13–16 years	Over 16 years	8 years or less	9–12 years	13–16 years	Over 16 years
	Dollars	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*
Money used or saved	6,540	6,360	6,420	7,010	5,200	5,220	5,250	5,990	3,690	3,970	4,280	5,500
Personal taxes	610	580	580	630	340	380	440	240	150	190	110	100
Net savings made	250	--------	--------	--------	--------	100	--------	120	40	--------	--------	--------
Personal insurance	280	300	300	410	220	230	330	390	120	190	230	220
Gifts and contributions	230	240	280	240	290	160	260	320	150	170	170	340
Current consumption	5,170	5,240	5,260	5,730	4,350	4,350	4,220	4,920	3,230	3,420	3,770	4,840
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
Money used or saved	100	100	100	100	100	100	100	100	100	100	100	100
Personal taxes	9	9	9	9	7	7	8	4	4	5	3	2
Net savings made	4	--------	--------	--------	--------	2	--------	2	1	--------	--------	--------
Personal insurance	4	5	5	6	4	4	6	7	3	5	5	4
Gifts and contributions	4	4	4	3	6	3	5	5	4	4	4	6
Current consumption	79	82	82	82	83	84	81	82	88	86	88	88
Food, total	21	21	18	16	23	22	20	12	22	19	22	29
Food at home	18	18	14	13	20	19	17	11	19	15	20	26
Food away from home	3	3	4	3	3	3	3	1	3	4	2	3
Tobacco	2	2	1	1	2	2	1	1	2	2	1	1
Alcoholic beverages	1	1	1	1	1	1	1	(1)	1	1	1	(1)
Housing, total	20	23	27	32	21	22	23	26	22	23	25	21
Shelter [2]	13	15	18	18	12	14	14	18	12	13	14	12
Household operations	3	4	5	6	4	4	5	3	4	4	4	6
Furnishings, equipment	4	4	4	8	5	4	4	5	6	6	7	3
Clothing (including upkeep)	8	8	7	8	7	7	7	4	10	10	10	12
Personal care	3	3	2	2	2	2	2	2	3	3	3	3
Medical care	6	5	6	5	6	6	7	7	8	8	8	5
Recreation	2	3	4	3	3	3	3	2	3	3	3	3
Reading and education	1	1	2	3	1	1	2	2	1	1	2	1
Automobile	12	13	12	9	15	16	13	25	14	14	11	10
Other transportation	1	1	1	1	(1)	1	1	(1)	1	1	(1)	1
Other expenses	2	1	1	1	2	1	1	1	1	1	2	2
Source of money paid out:	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*
Income (before taxes)	6,080	6,070	6,060	6,130	4,890	4,870	4,930	4,710	3,640	3,690	3,590	3,570
Other receipts	310	70	60	270	140	60	110	110	90	20	100	--------
Net savings used, debts made	--------	10	100	620	40	--------	150	--------	--------	250	250	1,620
Account-balancing difference	150	210	200	−10	130	290	60	1,170	−40	10	340	310
	Persons	*Persons*	*Persons*	*Persons*	*Persons*	*Persons*	*Persons*	*Persons*	*Persons*	*Persons*	*Persons*	*Persons*
Average family size	3.5	3.5	2.9	3.3	4.0	3.6	3.1	3.0	4.1	3.8	3.9	7.0

[1] Less than 0.5 percent. [2] Includes fuel, light, refrigeration, and water.

Source: U.S. Bureau of Labor Statistics (*8* and unpublished data); U.S. Department of Agriculture (*10*).

TABLE 12.—*Spending patterns of families in median income class (after taxes), by type of family, urban, rural nonfarm, and rural farm, United States, 1961*

Item	Urban ($5,000-$6,000 income class)					Rural nonfarm ($4,000-$5,000 income class)					Rural farm ($3,000-$4,000 income class)				
	Husband-wife only	Husband-wife, oldest child			Other husband-wife	Husband-wife only	Husband-wife, oldest child			Other husband-wife	Husband-wife only	Husband-wife, oldest child			Other husband-wife
		Under 6 years	6-17 years	18 years and over			Under 6 years	6-17 years	18 years and over			Under 6 years	6-17 years	18 years and over	
	Dollars	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*
Money used or saved	6,300	6,520	6,440	7,240	6,520	5,000	5,320	5,410	5,420	5,320	3,580	3,790	3,830	4,560	4,030
Personal taxes	720	530	480	540	440	500	400	290	280	270	240	100	100	200	110
Net savings made	440	--------	--------	--------	--------	120	--------	50	--------	290	310	60	--------	--------	90
Personal insurance	280	300	320	350	240	240	270	250	170	220	140	160	170	160	120
Gifts and contributions	320	180	180	210	180	250	130	130	150	130	210	150	120	150	200
Current consumption	4,540	5,510	5,460	6,140	5,660	3,890	4,520	4,690	4,820	4,410	2,680	3,320	3,440	4,050	3,510
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
Money used or saved	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Personal taxes	11	8	7	7	7	10	8	5	5	5	7	3	3	4	3
Net savings made	7	--------	--------	--------	--------	2	--------	1	--------	5	9	2	--------	--------	2
Personal insurance	4	5	5	5	4	5	5	5	3	4	4	4	4	4	3
Gifts and contributions	5	3	3	3	3	5	2	2	3	2	6	4	3	3	5
Current consumption	73	84	85	85	86	78	85	87	89	84	74	87	90	89	87
Food, total	18	19	23	20	24	19	18	25	25	24	18	19	25	19	20
Food at home	15	16	20	17	21	16	15	21	22	19	16	17	21	15	18
Food away from home	3	3	3	3	3	3	3	4	3	5	2	2	4	4	2
Tobacco	2	1	2	2	2	2	2	2	2	2	2	1	2	2	2
Alcoholic beverages	1	1	1	1	1	1	1	1	1	(1)	1	1	1	1	(1)
Housing, total	22	29	24	20	21	22	24	22	20	22	21	30	23	17	21
Shelter [2]	14	18	16	13	13	13	15	13	13	12	13	18	13	9	11
Household operations	4	5	4	3	4	4	4	4	4	5	3	5	4	3	4
Furnishings, equipment	4	6	4	4	4	5	5	5	3	5	5	7	6	5	6
Clothing (including upkeep)	6	7	9	9	10	5	6	8	9	6	6	8	11	13	11
Personal care	2	2	3	3	3	2	2	3	2	3	2	2	3	3	3
Medical care	5	5	5	6	7	7	6	5	6	7	8	7	7	8	8
Recreation	3	3	3	3	3	2	4	3	4	2	3	2	3	3	3
Reading and education	1	1	1	3	1	1	1	1	1	(1)	1	1	1	2	1
Automobile	11	14	12	13	10	15	19	14	17	16	10	15	12	17	16
Other transportation	1	1	1	1	2	1	1	1	(1)	(1)	1	(1)	1	1	1
Other expenses	1	1	1	4	2	1	1	2	2	2	1	1	11	3	1
Source of money paid out:	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*
Income (before taxes)	6,190	5,990	6,020	6,060	5,850	4,980	4,900	4,840	4,810	4,790	3,710	3,600	3,590	3,690	3,620
Other receipts	120	80	10	330	150	40	40	190	--------	10	70	50	--------	220	10
Net savings used, debts made	--------	150	130	530	60	--------	10	--------	410	--------	--------	--------	160	850	--------
Account-balancing difference	−10	300	280	320	460	−20	370	380	200	520	−200	140	80	−200	400
	Persons	*Persons*	*Persons*	*Persons*	*Persons*	*Persons*	*Persons*	*Persons*	*Persons*	*Persons*	*Persons*	*Persons*	*Persons*	*Persons*	*Persons*
Average family size	2.0	3.7	4.4	4.0	4.2	2.0	3.5	4.8	4.4	4.5	2.0	3.8	5.0	5.2	4.7

[1] Less than 0.5 percent. [2] Includes fuel, light, refrigeration, and water.

Source: U.S. Bureau of Labor Statistics (*8* and unpublished data); U.S. Department of Agriculture (*10*).

one family size—four persons—and one income—the median class for the urbanization—to show as fully as possible the effects of region on family spending patterns.[3] In tables 11 and 12, it was feasible to hold constant the income class only.

On the other hand, families that are alike in all these factors as well as in some others may still spend their money differently because they want different things out of life. To some families, for example, personal appearance is important. As a result, their spending for clothing and personal care is high. Other families may prefer to wear less expensive clothes, to spend less on personal care, and to have a nicely furnished house or the latest in kitchen equipment. Some families emphasize hobbies and recreational activities and entertainment, while others seek less expensive entertainment and spend more for food. Families differ in the amounts they contribute to religious and welfare organizations or spend on gifts to persons outside the families. Then, there are some families who choose to forego immediate enjoyment to save for some big things that they want to buy in the future.

In addition to these variations in spending patterns among families, spending within a family may be drastically different in one year from another. Heavy medical expenses, vacations, family visits, emergency house repairs, or equipment or car failures are some of the situations that may arise in a particular year that would be unlikely to occur in another and change the family spending pattern for that year.

Spending changes do not always follow immediately upon changes in family situations. There is a tendency for changes in the spending pattern to lag behind changes in income. It takes a while to become adjusted either to a substantially higher or a substantially lower income, and during the first year or so at the new level the family may carry over its old spending standards and habits. Therefore, sometimes the family spending may appear to be out of line with its income, but if the family expects to return to its former income, this deviation may be entirely reasonable. If the new income level is likely to continue, however, scrutiny of a spending plan may be in order.

Individual Differences in Family Spending

The spending patterns of two farm families in the North Central Region in 1961 given in table 13 illustrate some of these differences in spending by families with several similar characteristics. Both families reported a money income (after taxes) for the year of $3,000 to $4,000. Heads of both were men about the same age, whose wives were about the same age. Each family had two children less than 6 years old. There were sharp differences between them, however, in the proportion spent for personal insurance and the categories of consumption, such as food at home, furnishings and equipment, and the purchase and operation of the automobile.

Another way to point up the variation in the spending of individual families is to look at the differences concealed by averages. For example, the average amount spent by six rural farm families for current consumption was $2,944. These families lived in the North Central Region and had incomes after taxes of between $4,000 and $5,000. All families were husband and wife only, with the husband between 45 and 54 years. But spending for current consumption ranged from $1,272 to $4,362 for these couples. For food, the lowest amount spent by any couple in the group was $311, the highest was $1,055. For shelter, the range was from $228 to $926. The lowest and highest reported by any couple, not necessarily the same couple in each low and high instance, for

TABLE 13.—*Spending patterns of 2 rural farm families with comparable money income (after taxes), and of comparable size and age, North Central Region, 1961*

Item	Family A	Family B
	Percent	*Percent*
Money used or saved	100	100
Personal taxes	4	4
Net savings made	----------	----------
Personal insurance	2	6
Gifts and contributions	4	5
Current consumption	90	85
Food, total	37	18
Food at home	37	17
Food away from home	----------	1
Tobacco	2	1
Alcoholic beverages	(1)	1
Housing, total	25	30
Shelter [2]	18	18
Household operations	3	2
Furnishings, equipment	5	10
Clothing (incl. upkeep)	11	9
Personal care	2	2
Medical care	6	8
Recreation	1	2
Reading and education	(1)	1
Automobile	6	13
Other transportation	----------	----------
Other expenses	----------	(1)

[1] Less than 0.5 percent.
[2] Includes fuel, light, refrigeration, and water.

Source: Unpublished data from U.S. Department of Agriculture.

[3] The samples of farm and nonfarm families for States in the Northeast and West were quite small and, therefore, the data are less stable than for the North Central and South.

other categories of consumption, insurance, gifts and contributions, and savings were as follows:

	Low	*High*
	Dollars	*Dollars*
Household operations	64	124
Furnishings, equipment	4	225
Clothing	72	490
Personal care	5	192
Medical care	40	798
Recreation	2	110
Reading and education	3	57
Automobile	0	1, 949
Other transportation	0	114
Alcoholic beverages	0	190
Tobacco	0	246
Gifts and contributions	2	391
Personal insurance	54	154
Net savings made	0	2, 392

Such differences in spending show why families cannot use average expenditures of other families as rigid guides to their own spending. They make clear the basic fact that each family's spending must meet its own needs and preferences, within the framework of its resources.

At all income levels, there are always some individual families who save and others who go into debt or draw on their past savings, over a period such as a year. Some of those at the lower income levels who spend more than their incomes are retired people drawing on previous savings. Others have had their normal real income cut by unemployment, price changes, or other temporary factors, and have not cut their living accordingly. Some have unusually high medical or other emergency needs. Again, there are young people who anticipate higher future earnings and have made many purchases to set up housekeeping. Some are young couples with additional babies arriving. Others who cannot save are those unable to resist sales appeals beyond their means.

At higher income levels, many who go into debt or reduce their savings do so to make substantial purchases such as automobiles or major items of household equipment. At still higher levels, more families have enough current income to pay all or a large part in cash for such purchases and to meet emergency needs; hence, they incur smaller average deficits.

Families at relatively low-income levels who achieve a surplus include some, especially older people, who already have paid for their homes and have a supply of equipment and clothing. Some have very low food costs because of home production, or receive important parts of their living costs as pay in kind. Others have put a big savings goal, such as paying for a farm or business, ahead of current living. At high income levels, the savers are, in part, people who have recently moved up in income, or whose needs are temporarily low. Other higher income savers have made substantial reductions in installment or other debt outstanding without taking on new commitments. Still others have steadily increasing assets from regular payments on mortgage or purchase of bonds or other payments.

Section VII.—Interest Rates, Cost of Consumer Credit, and Other Long-Range Family Financial Considerations

The Effect of Interest

Interest paid on debt or received on savings may make a big difference in family finances. Added to the cash purchase price when payments are deferred, interest charges mount up to greater dollar cost than many families realize. The higher the interest rate and the longer the time payments are spread out, the more dollars are paid above the cash price. Interest received on savings of various sorts and left to compound can grow into a sizable reserve fund or nest egg, even if the amounts set aside are small at first.

Compound Interest

Table 14 and chart 2 show the effect of annually compounded interest. The higher the rate, and the longer the period of time involved, the greater the final sum. On savings, this means that the higher the rate obtained with safety, the greater the final spendable amount will become.

If funds can be left to draw interest at 6 percent compounded annually, the original investment doubles in slightly less than 12 years, at 5 percent in 14 years, at 4 percent in less than 18 years, and at 3 percent in a little more than 23 years. The increases come faster after the first few years because of the compound effect of receiving interest on the interest already earned. If interest is compounded at periods of less than a year, the increase is speeded up a little more.

Table 14 shows interest rates only up to 6 percent, which is close to the highest safe investment return a family is likely to have. But families frequently pay for credit accommodation as much as 12, 18, 36 percent or more at true annual interest rates. Making payments for a year at the annual rate of 36 percent is the same as paying $136 for an item that would cost $100 cash. Making such payments for 2 years, at simple interest rates, is equivalent to paying $172 for the item with a cash price of $100.

TABLE 14.—*Growth of $100 at interest compounded annually*

At the end of—	Original $100 plus accumulated interest at the annual rate of—					
	3 percent	4 percent	4½ percent	5 percent	5½ percent	6 percent
	Dollars	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*
1 year	103	104	104	105	106	106
2 years	106	108	109	110	111	112
3 years	109	112	114	116	117	119
5 years	116	122	125	128	131	134
7 years	123	132	136	141	145	150
10 years	134	148	155	163	171	179
12 years	143	160	170	180	190	201
15 years	156	180	194	208	223	240
20 years	181	219	241	265	292	321
25 years	209	267	301	339	381	429

NOTE: To find the accumulation of $1 (instead of $100) move the decimal two places to the left in each of the above numbers. To find the accumulation of $1,000 place one zero (0) to the right of each of the above numbers.

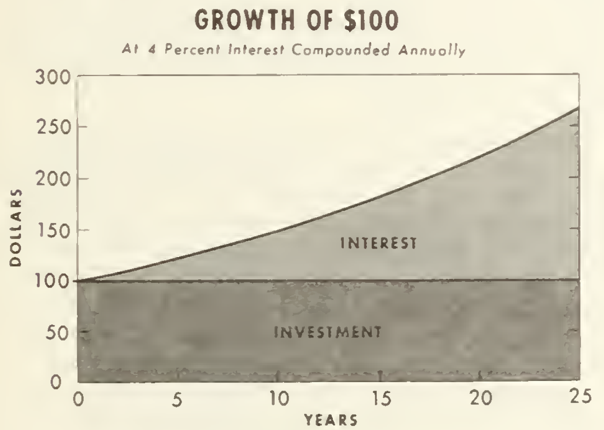

CHART 2

True Cost of Consumer Credit

Consumer credit is a service with a price that can and should be shopped for. Many families are unaware of what they pay for it.

The cost of credit varies—from dealer to dealer, with the size of the purchase, with the length of the loan period, and with the credit reputation of the borrower. The institution or organization to which the buyer will ultimately owe his payments, such as the dealer or retailer, a large commercial credit corporation, a bank, a credit union, or other source, and the laws of the particular State make a difference in the rates charged.

Charges for consumer credit necessarily cover more than interest on the unpaid balance. They cover such additional expenses to the seller or lender as the following: (1) Cost of investigation of credit worthiness of the applicant, (2) often cost of life insurance on buyer for period of the contract so that if he dies before completing payments, the seller can collect the balance owing from the insurance company, (3) cost of making out and processing the contract, (4) cost of bookkeeping and recordkeeping, (5) cost of making monthly or weekly collections, and (6) cost of allowing for delinquent payments and losses.

TABLE 15.—*Range of rates paid by consumer installment credit users*

Financing agency or type of loan	Rates paid by consumer credit users (equivalent percent per year on unpaid balance)	
	Common rate	Range of rates
Cash lenders:	*Percent*	*Percent*
Credit unions	12	12
Commercial banks—personal loans	12	12 to 42
Consumer finance companies under small loan laws	30	24 to 48
Illegal lenders	--------	[1] 42 to 1,200
Retail installment financing in 24 States with rate legislation—12-month contract:		
New cars	12	12 to 24
Used cars under 2 years old	(2)	18 to 31
Used cars over 2 years old	(2)	18 to 43
Retail installment financing in States without rate legislation—12-month contract:		
New cars	12	[1] 12 to 120
Used cars	(2)	[1] 19 to 275

[1] No legal maximum here. Figures shown give the range of actual rates reportedly being charged.
[2] Not available.

Source: Mors (*4*).

A disinterested study found a wide range of rates paid in various States to financing agencies as shown in table 15.

Calculating Installment Credit Costs

Credit advertising tends to emphasize how easy it is to borrow but not what the cost is. A consumer interested in using credit should try to compare the costs of the various plans available to him by figuring their true annual interest rates. He can use the following formula [4] for a plan that calls for repayments in equal monthly installments pro-

[4] The formula shown on p. 44 is referred to as a constant-ratio formula. It can be used only if repayment is to be monthly. If repayment is to be weekly, the formula can be adjusted as follows: $R=\frac{104C}{B(n+1)}$. Other more complicated formulas give slightly more accurate results, but these formulas are accurate enough for the consumer who wants to know the comparative cost of several credit plans.

vided he can get information as to the total finance charges in dollars (C in the formula) and the amount of credit received (B in the formula):

$$R = \frac{24C}{B(n+1)}$$

where:

R = annual true interest rate
C = total finance charges, whether called service fee, carrying charge, interest, or anything else, in dollars
B = amount of credit received
n = number of payments required to discharge the debt

In an examination of a number of advertised installment credit plans made in 1959, annual true interest rates were found to range from 7 to 39 percent per year (table 16). In only one of these advertisements, that relating to item 1, was any mention made of the annual cost of the credit; in that case the charge was quoted as "$4 per hundred per year." Table 16 gives details of several plans examined. The true annual interest rates shown in the table were calculated by the use of the constant-ratio formula shown. These rates did not range as high as some reported in table 15, because that table covers plans in States not regulating installment credit and credit for used cars.

Methods of Stating Installment Credit Charges

The three methods generally used to state the finance charge on installment credit are add-on, discount rate, and interest on the unpaid balance.

Using the add-on method, the charge is calculated as if the borrower had the use of the total amount of the loan for the full period, and this charge is added on to the amount of the loan. For example, in item 1 from table 16, if $1,500 were borrowed for 30 months at an interest rate of 4 percent per annum, the total interest charges would be $150. With this method the interest charge of $150 "added on" to the $1,500 means the debtor has to repay $1,650. The $150 would be at a true annual interest rate of 4 percent if the borrower had the use of the $1,500 for 30 months and repaid the full amount at the end of that period. However, if he pays $1,650 in equal installments over a 30-month period, his true annual interest rate is nearly two times the "add-on" rate, since he has the use of the full $1,500 only the first month; the last month he has the use of only about $55.

Using the formula $R = \frac{24C}{B(n+1)}$, the approximate true annual interest rate in this transaction is:

$$R = \frac{24(\$150)}{\$1{,}500(31)} = \frac{\$3{,}600}{\$46{,}500} = 0.0774 \text{ or } 7.7$$

percent.

When interest is computed by the add-on method and payments are completed in a shorter period, the true annual interest rate is slightly lower. For example, if item 1 were repaid in 20 instead of 30 equal monthly installments, the rate would be 7.6 percent.

When credit charges are added on to the purchase price, and the buyer repays the total in 20 equal monthly payments,

If the quoted rate is—	The buyer pays a true annual interest rate of—
4 percent per year	7.6 percent
5 percent per year	9.5 percent
6 percent per year	11.4 percent
7 percent per year	13.3 percent
8 percent per year	15.2 percent
1 percent per month	22.9 percent

A discount rate is sometimes used for cash loans. The finance charge is calculated (as in the case of the add-on method) as if the borrower were to have the use of the face amount of the note for the full period. In this method, however, the dollar finance charge is deducted from the face amount of the note to determine how much the borrower receives.

Item 3 from table 16 is an example of the discount method. The face of the note for $1,500 is discounted at 7 percent per year; for 15 months the interest is $131.25. The borrower receives $1,500 less $131.25, or $1,368.75. If the borrower were to have the full use of $1,368.75 for 15 months, and repay this amount at the end of this period, his true interest rate would be slightly more than 7 percent. However, when he repays the note in installments, his true interest rate is slightly more than twice the discount rate of 7 percent, since he has the use, over the entire 15-month period, of only about one-half the discounted value of the note.

Using the formula $R = \frac{24C}{B(n+1)}$, the approximate true annual interest rate is:

$$R = \frac{24\ (\$131.25)}{\$1{,}368.75\,(16)} = \frac{\$3{,}150}{\$21{,}900} = 14.38 \text{ or } 14.4$$

percent.

When the credit charges are subtracted from the stated amount of the loan at the time of the loan and the buyer repays the stated amount of the loan in 20 equal payments,

If the quoted rate is—	The buyer pays a true annual interest rate of—
4 percent per year	8.2 percent
5 percent per year	10.4 percent
6 percent per year	12.7 percent
7 percent per year	15.1 percent
8 percent per year	17.6 percent
1 percent per month	28.6 percent

TABLE 16.—*True annual interest rate of consumer installment credit*

Item	Price of merchandise or stated amount of loan	Downpayment or amount discounted	Credit extended or cash advanced (2) − (3)	Repayment schedule: Monthly payment [1]	Repayment schedule: Months	Total amount paid in installments (5) × (6)	Total financing cost (7) − (4)	Approximate annual TRUE interest rate	Plan offered by—
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Dollars	*Dollars*	*Dollars*	*Dollars*	*Number*	*Dollars*	*Dollars*	*Percent*	
1. Automobile loan	1, 500. 00	--------	1, 500. 00	55. 00	30	1, 650. 00	150. 00	7. 7	Bank.
2. Modernizing loan	1, 500. 00	--------	1, 500. 00	55. 17	30	1, 655. 00	155. 00	8. 0	Do.
3. Unsecured personal loan	1, 500. 00	131. 25	1, 368. 75	100. 00	15	1, 500. 00	131. 25	14. 4	Do.
4. Modernizing materials	350. 00	--------	350. 00	11. 74	36	422. 50	72. 50	13. 4	Mail-order house.
5. Furniture or major appliance	360. 00	10. 00	350. 00	16. 92	24	406. 00	56. 00	15. 4	Do.
6. Revolving charge account	--------	Varied	--------	--------	--------	--------	--------	18. 0	Do.
7. Unsecured personal loan	100. 00	--------	100. 00	6. 72	20	134. 40	34. 40	39. 3	Consumer finance company.
8. Unsecured personal loan	500. 00	--------	500. 00	28. 88	20	577. 60	77. 60	17. 7	Do.
9. Unsecured personal loan	1, 000. 00	--------	1, 000. 00	56. 81	20	1, 136. 20	136. 20	15. 6	Do.
10. Holiday tour	290. 66	29. 66	261. 00	15. 66	20	313. 20	52. 20	22. 9	Airline.
11. Holiday tour	909. 00	91. 00	818. 00	48. 02	20	960. 40	142. 40	19. 9	Do.
12. Holiday tour	2, 763. 05	277. 05	2, 486. 00	142. 53	20	2, 850. 60	364. 60	16. 8	Do.
13. Automobile loan	2, 000. 00	--------	2, 000. 00	173. 53	12	2, 082. 36	82. 36	7. 6	Bank.
14. Automobile loan	2, 000. 00	--------	2, 000. 00	64. 53	36	2, 323. 08	323. 08	10. 5	Do.
15. Automobile loan [2]	3, 126. 15	1, 042. 05	[3] 2, 250. 90	81. 60	30	2, 447. 85	196. 95	6. 8	Do.
16. Automobile purchase [2]	3, 126. 15	1, 042. 05	[4] 2, 266. 60	86. 89	30	2, 606. 59	339. 99	11. 6	Sales finance company.

[1] Final payment is rounded, when necessary, so (7) = (4) + (8).

[2] *Administered Prices-Automobiles*—Report of the Subcommittee on Antitrust and Monopoly of the Committee on the Judiciary, U.S. Senate, p. 164, November 1, 1958.

[3] Includes $162.80 premium for fire, theft, comprehensive, and $50 deductible insurance for 30 months, and $9 initial membership fee (excluded if previously had policy with same company); also includes $4 filing and notary fees.

[4] Includes $182.50 fire, theft, comprehensive, and $50 deductible insurance, 30 months.

Source: McIntosh, M. B. *Why Installment Credit Costs Vary.* Presented at the 37th Annual National Agricultural Outlook Conference, Washington, D.C., November 1959.

The true annual interest rate for a 15-month loan discounted at 7 percent (item 3) from table 16 is a little lower than the rate for a 20-month loan listed. That is to say, the rate is slightly lower for the shorter term loan under the discount method, just as it is under the add-on method.

In some types of installment contracts, interest is charged on the unpaid balance. The interest rate then is quoted per month, and the annual interest rate is simply the monthly rate times 12. The revolving charge account in item 6 of the table is an example. The monthly rate was 1½ percent of the unpaid balance, so the annual rate was 18 percent. Credit unions charge monthly rates on the outstanding balance, and consumer finance companies frequently do. Banks also offer check-credit loan accounts with a monthly rate charged on amounts outstanding.

When interest is charged on the unpaid balance,

If the quoted rate is—	The buyer pays a true annual interest rate of—
½ of 1 percent per month	6 percent
¾ of 1 percent per month	9 percent
1 percent per month	12 percent
1¼ percent per month	15 percent
1½ percent per month	18 percent
1¾ percent per month	21 percent
2 percent per month	24 percent

The true annual interest rate is not affected by the length of the loan period when interest is calculated on the unpaid balance.

Cash price versus credit price.—The simplest way for many consumers to see what they are paying for an item purchased on the installment plan is to compare the cash and the credit price. The credit price is the total amount that the consumer will pay if he signs the contract. It is the total of the trade-in allowance if any, any additional downpayment, and the amount of the regular payment times the number of such payments required to complete the contract. It includes all service charges, extra fees, or other expenses (summarized as a "financing cost" in table 16, column 8) which may be added to the cash price. The cash price, if not stated, can be found by asking what the charge would be if the consumer does not sign a contract but pays cash instead. The difference between the two is the premium the consumer pays to take possession of the item before instead of after it is fully paid for.

Example 16 in table 16 indicates the cost of buying an automobile on credit:

Cash price of car (including 2-percent sales tax)	$3, 126. 15
⅓ downpayment	1, 042. 05
Unpaid balance on car	2, 084. 10
Car insurance for 30 months (covers fire, theft, comprehensive, and $50 deductible collision insurance)	182. 50
Balance to be financed	2, 266. 60
Finance charge (6-percent "add-on" rate for 30 months)	339. 99
Total contract	2, 606. 59
Monthly payment ($2,606.59÷30)	86. 89

The approximate true annual interest rate on this car, according to the formula on page 44, is 11.6 percent. The difference between the cash price and the credit price is $339.99, the premium the family pays to drive the car before it has finished payments. Besides, the cash buyer may select somewhat cheaper insurance than the credit buyer is required to carry.

Mortgage Costs

A comparison can be made among the ways different families might pay for a $15,000 house (table 17), with the interest rate in each case being 6 percent. The families make different downpayments and take different numbers of years to repay their loans.

Family E, which can pay $1,000 down and complete payments in 20 years, will pay $3,114 less interest than Family C, which makes only $750 downpayment and takes 25 years to pay. And it pays $7,063 less than Family A, which may have thought it was lucky to buy a house with no downpayment and take over 30 years to pay. Family A might not have felt so lucky if it had realized it was going to pay nearly $17,000 in interest, more than the purchase price of the house, before it was through.

Another comparison, table 18, shows substantial differences in amounts of interest required to pay off a $15,000 mortgage in 15 years depending on rates of interest.

The advantage of spreading payments over a long period of years is the smaller monthly requirements, which leaves more for current spend-

TABLE 17.—*Ways 5 families might purchase a $15,000 house with various monthly payments at 6-percent effective interest rate*

Family	Down-payment	Monthly payment (principal and interest)	Time required to pay off loan	Total interest paid during life of loan
	Dollars	*Dollars*	*Years*	*Dollars*
A	0	88	30	16, 828
B	0	95	25	13, 557
C	750	90	25	12, 879
D	0	106	20	10, 462
E	1, 000	99	20	9, 765

TABLE 18.—*Total effective interest costs on $15,000 loan, payable in monthly installments over a 15-year period, at different interest rates*

Annual interest rate (percent)	Monthly payment (principal and interest)	Total interest paid during life of loan
	Dollars	*Dollars*
4.5	114	5, 531
5.0	118	6, 195
6.0	125	7, 554
7.0	133	8, 945

ing. The disadvantage is the larger total interest cost.

How the interest mounts up over the years is indicated in table 19. When the annual rate is 6 percent, the total interest paid over the 15-year life of a loan is more than half the amount of the original loan. In 25 years it is nine-tenths. To the extent that there are service charges, collection fees, insurance charges, late payment penalties, and refinancing charges, the total cost paid for the use of the money will be correspondingly increased.

The foregoing facts are not shown with a view to discouraging the purchase of a home, which is often one of the finest kinds of family investment. However, they show the amount the family will save in the end if it makes as large a downpayment as it can possibly muster, and the importance of careful weighing of present and future needs and commitments. A desirable contract provides for payments as large as the family can afford at the present time, with the right to repay the loan at a faster rate than originally agreed upon if the borrower later so desires. Mortgages guaranteed by the Veterans' Administration are compelled to include this provision and without penalty.

The same facts show the importance, for a newly married couple or young people looking forward to marriage, of putting regular sums into a savings account toward the future purchase of a home.

TABLE 19.—*Total interest costs on $15,000 loan, at 6-percent effective annual interest rate, payable monthly over varying periods of time*

Time required to pay off loan (years)	Monthly payment (principal and interest)	Total interest paid during life of loan
	Dollars	*Dollars*
5	289	2, 333
10	165	4, 841
15	125	7, 554
20	106	10, 462
25	95	13, 557

Family Savings

Set-Asides

The way in which a set-aside as small as $15 a month grows when put into a savings institution or investment which pays interest semiannually is shown in table 20 and chart 3.

Returns on funds invested in Series E Savings Bonds are shown in table 21. If held to maturity, the bonds pay 4.15 percent, but they may be cashed at any time, with lower return the shorter the time the bond has been held.

TABLE 20.—*Growth of set-asides of $15 per month, with interest compounded semiannually*

At the end of—	Amount of fund if $15 is deposited each month, with interest compounded semiannually at the annual rate of—					
	3 percent	4 percent	4½ percent	5 percent	5½ percent	6 percent
	Dollars	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*
1 year	181	182	182	182	182	183
2 years	368	371	372	374	375	377
3 years	561	568	571	575	578	582
4 years	759	772	779	786	793	800
5 years	963	985	997	1, 008	1, 020	1, 032
10 years	2, 081	2, 187	2, 242	2, 299	2, 358	2, 418
15 years	3, 378	3, 651	3, 798	3, 951	4, 112	4, 282
20 years	4, 884	5, 436	5, 741	6, 066	6, 414	6, 786
25 years	6, 631	7, 612	8, 168	8, 774	9, 432	10, 152

NOTE: These calculations do not provide for the payment of interest on deposits made between interest payment dates. Some institutions do pay interest on deposits made between interest payment dates; in these cases the funds will increase somewhat faster.

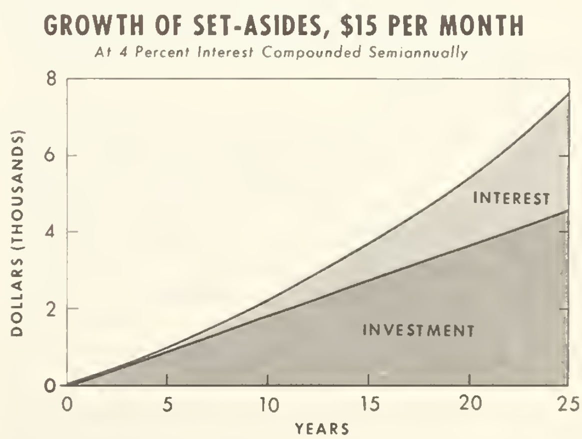

CHART 3

TABLE 21.—*Yields on revised Series E Savings Bond—new purchases on or after Dec. 1, 1965*

Schedule of redemption values and investment yields (based on $100 bond, maturity value; $75, issue price)

Period after issue date	Redemption value during each period	Approximate investment yields on issue price to beginning of each period [1]
	Dollars	*Percent*
First half year	75.00	
½ to 1 year	75.84	2.24
1 to 1½ years	77.28	3.02
1½ to 2 years	78.80	3.32
2 to 2½ years	80.40	3.51
2½ to 3 years	82.08	3.64
3 to 3½ years	83.84	3.75
3½ to 4 years	85.68	3.84
4 to 4½ years	87.56	3.91
4½ to 5 years	89.48	3.96
5 to 5½ years	91.44	4.00
5½ to 6 years	93.44	4.04
6 to 6½ years	95.52	4.07
6½ to 7 years	97.68	4.11
Maturity value (7 years from issue date)	100.00	4.15

[1] Compounded semiannually.

Source: U.S. Treasury.

Savings Through Insurance

Some families find the discipline of meeting an insurance premium the only way to make themselves save. Then if they face emergency needs, they can surrender the policy for cash or borrow from the insurance company with the loan secured by the amount of the cash value built up. Others prefer to purchase cheaper insurance that does not accumulate any cash surrender value. They then make their savings through other channels and can draw directly on those savings for emergency or special purposes.

A comparison of approximate premium rates for $1,000 of life insurance of four different types is presented in table 22. There is no savings element in term insurance; if the insured does not die, it has no cash value. Because of its low cost, it may be particularly useful at a time when insurance needs are high and income low, as when there are small children.

The other three types—straight life, limited payment life, and endowment insurance—accumulate cash value from that part of the premium not used for coverage of risk and for operating costs of the insurance companies or associations. Such accumulation is a form of saving that can be used as a basis of borrowing, but it does not increase the face value amount that will be paid to survivors. Examples of these accumulations are shown in table 23. Such savings may be compared with other forms of saving with respect to rate of return, safety, cashability, supervision required, and hedge against inflation. Because of its higher cost, most families do not purchase endowment insurance until their more basic insurance needs have been met.

At later stages in life, some people prefer to convert their insurance into income for old age. This can be done through various types of annuity plans offered by life insurance companies. These are based on average life expectancies and on compound interest returns.

TABLE 22.—*Approximate annual premium rates for $1,000 of each of 4 types of life insurance (male)*

Taken at age	5-year term (renewable and convertible)	Straight life	Limited payment life (paid up at age 65)	20-year endowment
	Dollars	*Dollars*	*Dollars*	*Dollars*
15	7	14	16	48
20	7	16	18	48
25	8	18	20	49
30	8	20	24	49
40	11	28	35	51
50	19	40	61	56

Source: Institute of Life Insurance (*2, p. 22*).

TABLE 23.—*Average cash values per $1,000 of each of 3 types of life insurance (male) at end of 5 and 15 years after issue*

Taken at age	Straight life		Limited-payment life (paid up at age 65)		20-year endowment	
	After 5 years	After 15 years	After 5 years	After 15 years	After 5 years	After 15 years
	Dollars	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*
15	17	125	21	137	177	686
20	23	148	29	166	177	685
25	32	177	40	202	177	685
30	43	209	54	247	178	685
40	69	280	97	379	179	681
50	101	359	189	711	180	671

NOTE.—The cash value for a 4th type of life insurance, term, is always zero (0).

Source: Institute of Life Insurance, New York City. [Unpublished data.]

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Some publications of the U.S. Department of Agriculture on these subjects are listed below. Single copies are available free while the supply lasts, except where the price is stated. Address requests for free copies to the Office of Information, U.S. Department of Agriculture, Washington, D.C. 20402. Copies that are for sale may be ordered from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

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